An Ounce of Prevention

New Expanded Edition for 1985-1986

The seventh annual survey of security and loss prevention in the retail industry, with practical articles and success stories to help you strengthen your security and loss-prevention programs

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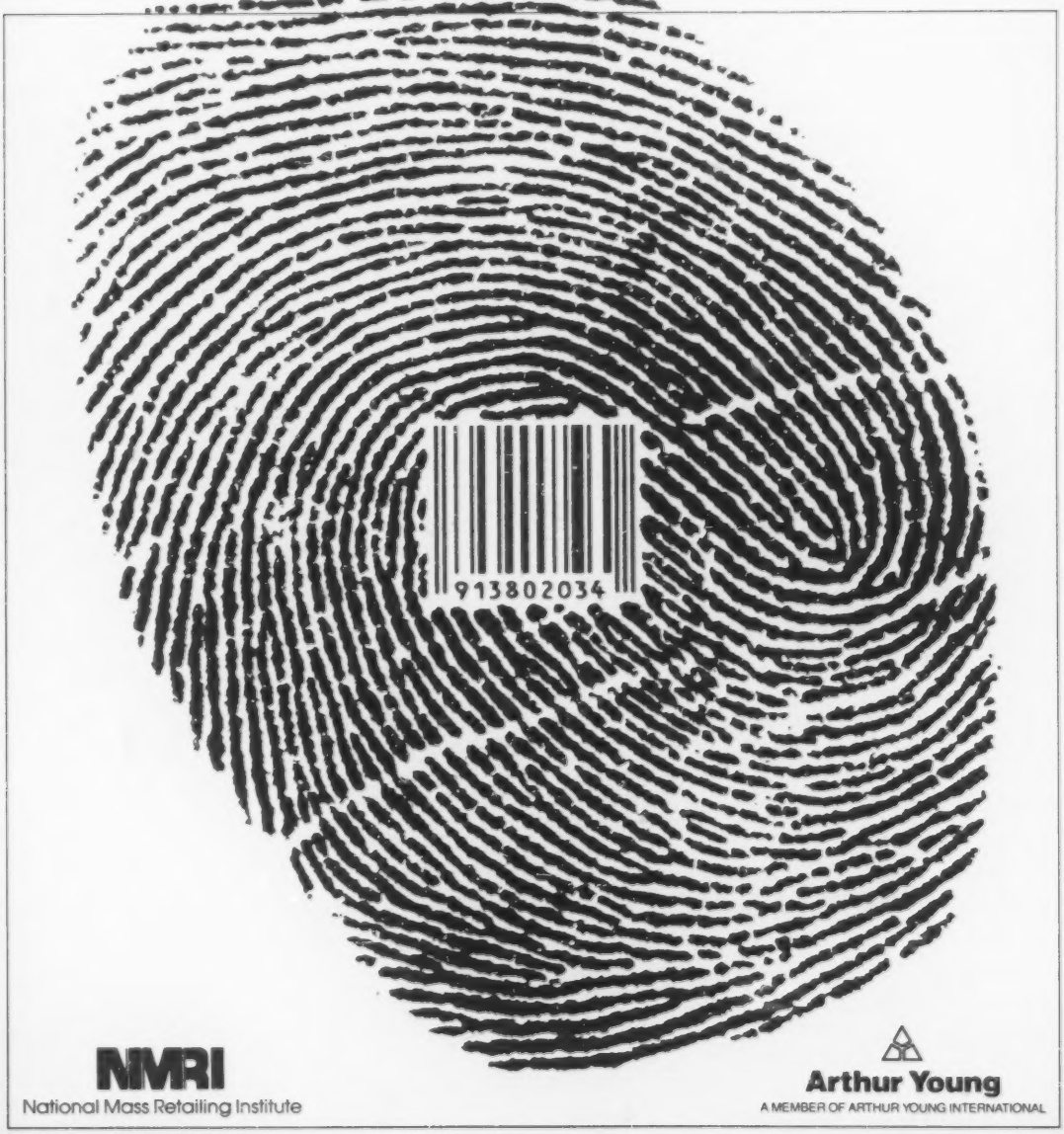

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The NMRI is an association representing more than 450 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables for groups that include executives involved in:

- Annual merchandising and management convention
- Top management
- Financial management
- Advertising and promotion
- Loss prevention
- Personnel
- Physical distribution and transportation
- Government affairs

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Arthur Young is an international accounting, tax, and management consulting firm with offices in 85 cities in the United States and 370 cities in 67 other countries. Through its National Retail Group, Arthur Young provides the following specialized services to the retail industry in addition to a full range of accounting, tax, and consulting services:

- Bi-monthly newsletter on a broad spectrum of current retail issues
- Operations consulting
- Point-of-sale and purchase-order management systems consulting
- Security and loss-prevention consulting and training
- Productivity improvement consulting
- Human resources consulting
- Annual survey of retail EDP expenditures

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From the Editors

Security and loss prevention: not a losing battle, but a steady one that can't be overlooked

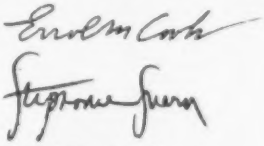
This year we are proud to present a new look and, in many respects, a new book. *An Ounce of Prevention* is our seventh annual survey of retail security and loss prevention, but it is much more. The industry clearly welcomes the annual Arthur Young/NMRI study, which provides reliable benchmarks to measure an individual company's performance against national averages. So many topics are covered in the survey that virtually every company will find one or more areas of security and loss prevention that need to be rethought in light of nationwide trends and innovations.

The trend continues to be *prevention*, not just security or apprehension. In keeping with this trend, this year's survey shows that training is more important than ever, and shrinkage awareness programs for employees are being actively pursued through videotape instruction and many other techniques. On the high-tech side, electronic article surveillance is increasingly valued as a preventive measure.

In spite of everything, the national rate of shrinkage increased by 6%, costing the surveyed companies $1.9 billion in fiscal 1984. Security and loss prevention remains a priority concern throughout the industry—not a losing battle in any sense, but a steady one that can't be overlooked.

Important as statistics are, they don't convey the feel of day-to-day security and loss-prevention activities. Statistics are in fact the sum of thousands of stories, thousands of individual efforts. Who are the people that make security and loss prevention work? What new ideas have they been pursuing? What do they believe is important in today's retail marketplace? How do they engineer successful asset-protection programs—and maintain them as conditions change?

For several years, we have increasingly looked *behind* the survey findings to the people, ideas, and programs that generate the numbers. We have been moving, in other words, toward an annual magazine that combines an analytical approach with interviews, reports, and articles reflecting in a personal, detailed way who we are and what we're doing. That magazine is *An Ounce of Prevention*, and this is its premier issue. We hope that you will like it, benefit from it, and come back next year.



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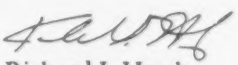

Richard I. Hersh
President
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Institute

The Newsstand

Ames and Murphy Achieve Outstanding Results

The "A-Team" Philosophy

The speaker is Mr. Henry Sabinski, Director of Security for the nationwide chain of Ames Department Stores and its Murphy subsidiary. Hank's regular column, "An Ounce of Prevention," written for Ames employees, is gratefully acknowledged as the source of this publication's title. The Ames success story has more to do with managing people well to *prevent* shrinkage than with security hardware, although the chain is strong on hardware, too.

"Our approach to loss prevention isn't strictly security-oriented. We've worked very, very diligently to involve employees in our loss-prevention program, which we call the A-Team. It has many different aspects. Our stores are characteristically run with a very small management staff and a tight payroll-to-sales budget, and so we need to get the best we can from everybody. We try to ingrain an awareness of asset protection in our people; we make it clear that protecting assets not only helps the company but helps employees, who share in our growth. We make no secret of shrinkage results. On the contrary, we dramatize them, together with any cases or interesting items that have come to our attention, through a bi-weekly agenda that is covered at store meetings. The day-shift meeting, coffee and donuts; on the night-shift, a good snack—and on both shifts, open discussion of general store issues plus the asset-protection agenda that we've sent along from the home office in Connecticut.

"One of the most successful elements in our program is the Associate Opinion Survey. It is built around a questionnaire (provided by a southwestern consulting firm) that cuts both ways: it informs us, anonymously, of our associates' views on many issues, and the special design of the questionnaire allows us to rate the general level of honesty in specific stores. We target low-shrink stores and high-shrink stores particularly. From the one we learn how to improve the other.

"Here's how it works, in brief. The questionnaire contains about 15 or 20 honesty questions intermingled with many other questions about the conditions of employment, store management, and so on. A typical honesty question might be: 'Do you consider it OK to steal up to $1?,' or, 'Is it all right to steal between $1 and $2?'—simple questions, but when you tally them up, you derive clear data about staff honesty that often correlates with shrinkage data.

"Filling out the questionnaire is voluntary and completely anonymous. We generally have a 70% rate of response because it offers a very real opportunity for associates to make their views known about sensitive issues. For example, we'll ask: 'Are you reasonably satisfied with your salary and benefits? Is the company consistent in its policies and procedures? Does your manager encourage you to make suggestions?'—and so on. And the answers, often in essay form, aren't pitched into the memory hole. The results are computer-collated and the resulting report is carefully discussed with store managers. Actions are taken on the basis of these reports.

"The Associate Opinion Survey is effective. We are certain that where there are problems of low morale, poor productivity—in a word, employee discontent—you will have a shrinkage problem. And if we discover that a store has a large number of high-risk people, we check our hiring practices. Insights from the Survey have been so valuable that we've expanded the program every year and reworked the questions to achieve still greater cogency.

"Another people-oriented program that has paid dividends is our Loss-Prevention Pre-Opening Program. We assign a loss-prevention manager to a new store in the weeks just before it opens. He holds training meetings with associates, goes over every loss-prevention control feature with them in detail, shows videotapes, demonstrates how shoplifters characteristically operate in various store departments. You could say that he instills the A-Team spirit in the new group of employees. He also makes clear that the store has internal controls; he doesn't sidestep the issue of internal pilferage. He explains the consequences of being caught, highlights the fact that we acknowledge associates for information leading to apprehension. And it's all done in a very positive, upfront manner. There is no question as to what our policy is. This program has been in effect for three years—long enough for us to know that it makes a lot of sense.

"Of course, Ames and Murphy have their full share of electronic surveillance and audit methodologies, store detectives, security guards. We don't deny for a minute the importance of tough security measures and internal controls. But the participation and involvement of associates is the main thing. I would say that we are 70% to 80% there. By and large, our people are attuned to what we're doing." ■

Topic: Customer Service
= Loss Prevention

High-Tech Security in a Customer-Service Environment

The Four S's

Belk, a major southeastern department-store group headquartered in Charlotte, North Carolina, has succeeded in marrying state-of-the-art closed-circuit television surveillance with enhanced customer service. Its strategy: committing a loss-prevention specialist and—during peak selling times—an *experienced floor manager* to the monitoring room. The role of the floor manager, who usually rotates on two-hour shifts, is to relocate sales personnel from slow areas to busy areas when necessary and to spot lone shoppers who may need help. The loss-prevention specialist on duty operates and monitors the computerized, custom-designed CCTV system.

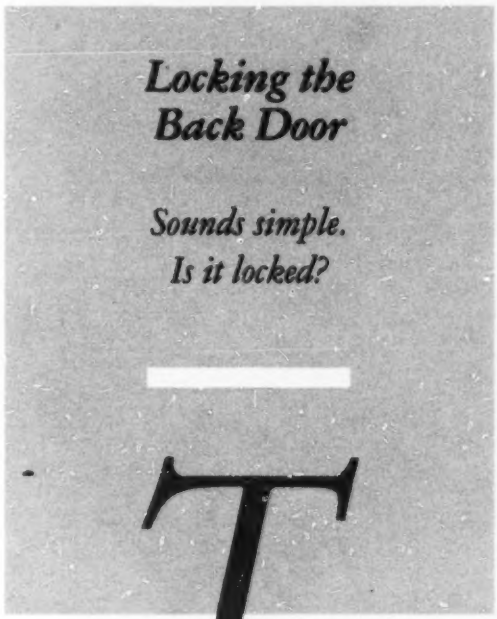
Mr. Ralph J. Rognstad, Security Manager for Belk stores and co-author of this strategy, comments: "The Four S's—sight, service, sales, and security—are essential to successful retailing. If you can see customers, you can better serve them; if you're serving them, you're probably going to be able to sell them something; and if you're selling them, you've got good security. On the other hand, if you cannot see customers, how are you going to serve them? And if you can't see them and don't serve them, how are you going to sell them or have good security?"

The CCTV system that makes the Four S's work so well for Belk was designed through close collaboration between the retailer and the manufacturer, and it has been repeatedly updated since initial installation. The system features a self-contained dome unit which has a computer-operated camera hidden from view by a smoked-plastic domed shield. The computer enables the camera operator to concentrate on surveillance rather than on the wearisome task of panning or tilting the cameras from one sales area to another. The camera dome unit can be easily moved from one position to another on the ceiling if, for example, sales areas are redesigned or relocated; no special technician is needed to reinstall it. The domed units, increasingly common in retail security, hide the direction that a camera may be pointing and add to theft deterrence by creating uncertainty, unlike the visible cameras of earlier vintage.

When a shopper or employee is acting suspiciously, a special computer program allows the loss-prevention specialist to track the suspect manually with one camera while the other cameras automatically focus on the suspect from different angles. The floor manager's presence in the monitoring booth enables the loss-prevention specialist to make better and quicker decisions in identifying and apprehending suspects. A further enhancement of the system is planned, which will coordinate visual monitoring with computerized monitoring of a cash register operated by an employee under suspicion of dishonesty. The transaction-monitoring program distinguishes between correct transactions and exceptions, and records only exceptional transactions for investigation.

Surprisingly, the cost of this ultra-sophisticated system is only about 25% more than a conventional system. According to Mr. Rognstad, its advantages over conventional systems far outweigh the additional expense. And he reports that handicapped personnel have proved able to deliver high performance on the CCTV equipment. Here is an ideal niche for the physically handicapped in any retail operation. ■

Topic: *Creating* A Dishonest Employee —By Providing Opportunities



The speaker is an industry leader, telling a security and loss-prevention tale that reads a little like Mickey Spillane and packs a moral like Aesop.

"At about 5:30 on a weekday morning, a private investigator was having breakfast at an all-night restaurant when he happened to look across the street to the loading dock of a mass-merchandiser's warehouse. Just then, a car pulled around the corner and parked. The driver turned off his lights, slipped out of the car and went over to a transfer trailer, where he found a good-sized box hidden between the wheels. Popping it in the trunk of his car, he went back for another two boxes. These were deposited in the back seat, and he drove off—not far, as it turned out. He circled the building, parked within view, and entered the warehouse as if he belonged there.

"The investigator wandered over to have a look. He had nothing to do with the firm, but experience told him that private cars

and isolated individuals aren't normally involved in incidents of the kind that just happened. Finding the vehicle, he looked in and saw two boxed videotape recorders in the back seat. He took the car's license plate number and went on his way.

"Later he called the company, identified himself to the security director, and set up a meeting. Within hours, the security director had ordered stake-outs on the vehicle and the loading dock. The ground-rules for the building were straightforward: front and back doors to be locked and unlocked by the night supervisor, and attended at all times when the doors were open. For two nights, the stake-out was uneventful, but the investigators noticed employees freely coming and going through the front and back doors—putting trash out, and so on. No question of locking up or close supervision.

"They decided to interview the driver of the car, who was an employee of only two months' standing. Closely questioned, he admitted that he and three other men had stolen eight VCRs from the warehouse. The others were brought in—and here the case gets especially interesting. I had the opportunity to interview one of them, a long-term employee recently transferred from another store. I told him that my primary interest is why thefts take place and what can be done to prevent their recurrence. This is what he told me in reply:

" 'You know, after I came here, I saw a fellow stealing, and I saw other guys doing the same. I thought to myself, it's easy—I can do it, there's no risk. People were taking stuff out through the unsupervised back door, or even through the front door. The supervisor spent his time talking with friends. He didn't want to be bothered opening and locking up for everyone. He made it so easy that I started stealing.'

"I asked him if he had stolen at the store where he used to work. 'Oh no,' he said, 'the night stock supervisor over there keeps the doors locked and he's constantly moving around. You never know where he's going to show up. It never even occurred to me to steal.'

" 'What can be done,' I asked him, 'to prevent thefts here?'

" 'Lock the doors.'

"Later on, I went over to the security director. 'You know,' I said, 'I'm convinced the man would have stayed honest if that supervisor had followed your security rules. He was an employee in the borderline category. Given the opportunity to steal, he'll do it. Without opportunity staring him in the face, he wouldn't think of it. The supervisor *created* a dishonest employee.' " ■

Topic: Information-Sharing Across Competitive Lines

80% Reduction in Armed Robbery

Information-sharing makes New York supermarkets an uninviting target

By pooling information and effort, supermarket chains throughout New York City's five boroughs have succeeded in reducing armed robberies by a full 80% since 1981. The man principally responsible for this major success in prevention and apprehension is Mr. Jack Squicciarini, Security Director for Red Apple Supermarkets. Energetic and streetwise, Jack and his counterparts in other chains have developed a model program.

Under Jack's leadership, the Supermarket Security Council was formed in 1980 to combat a heavy 14% annual increase in armed supermarket robberies in the New York area. The strategy evolved by the Council was simple but called for a high level of cooperation among supermarkets that compete in other respects. Here is how it works.

Detailed information about all armed robberies is forwarded by the individual chains to a central office, where it is recorded in a computer. When an individual suspect or stick-up team is apprehended, law enforcement officers draw from the data-base to investigate the possibility that a suspect is responsible for other armed robberies that fall into the same pattern. To support the investigation, the Council assembles personnel from supermarkets across the five boroughs who witnessed previous crimes that may be linked to the suspect. These men and women participate in a photo line-up at the police station and, if the suspect is implicated, they also attend a physical line-up to confirm the identification. Through positive identifications and successful prosecutions generated by this strategy, convicted criminals are often sentenced not just to six months or a year for one crime but to 10 or 20 years for multiple crimes.

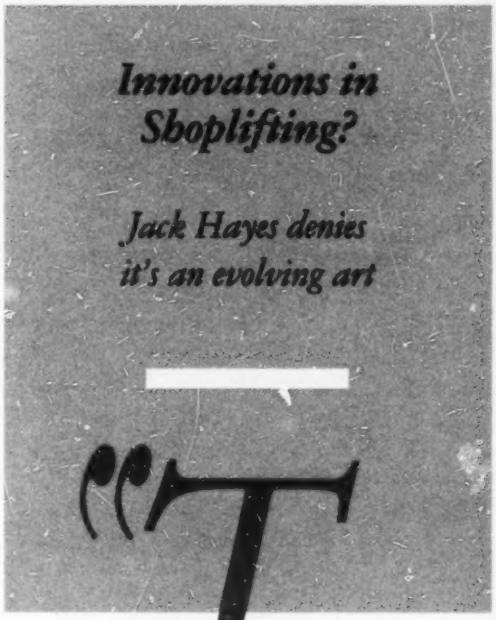
The word got out on the street: supermarkets weren't an easy hit anymore, and the penalties could be high. New York's criminal class was well organized. Just like dockworkers, professional armed robbers would assemble at certain places in the morning and "shape up" (street talk for forming stick-up teams with each member in a preassigned role). But Jack and his associates knew where they were and how they organized. Their private investigations, conducted under fewer legal restrictions than police work, helped the police to move their own efforts forward more rapidly.

Another service provided to the police by the Supermarket Security Council is developing and enlarging photographs of suspects taken by closed-circuit television cameras. It's all part of making law enforcement easier.

The Supermarket Security Council recognizes that an important duty is educating supermarket personnel. "You have to understand," Jack says, "that when a stick-up team goes into a store, they're just as scared as the people they're sticking up. If personnel make a wrong move or don't move fast enough, they'll shoot. We explain to people what to do and what not to do, how to react —which above all means staying calm. I have a fellow working for me who knows his stuff—years ago he was an armed robber. Today he is one of the best security people in New York."

The rate of armed supermarket robberies is still higher in New York (averaging 15 per day) than in most regions of the country. But there are no known professional armed-robbery teams left in the city. Thanks to the Supermarket Security Council, 107 apprehensions were made in the first nine months of 1985 —and no fewer than 251 in 1981, when the cooperative program got underway and faced a much tougher problem.

Corporate executives take note: The security directors at first had a hard time convincing the top management of New York chains to call off the competition and cooperate with one another. None of the stores wanted it known just how good or bad its security problems were. When they made it past this hurdle, security in *every* store improved by a tremendous margin. ■



"The shoplifting techniques that you hear about have been out there for years," reports Jack Hayes, international consultant for Arthur Young on retail security and loss prevention. "Very few of them really change. The true professionals—thank goodness, there aren't many—are sophisticated in their techniques, use hand-signals and so on, but it's nothing we haven't been seeing for a long time. When I say 'professional,' I don't mean narcotic addicts. Addicts are often desperate and dangerous individuals, willing to grab merchandise and get out of the store any way they can, but they are rarely professionals in the true sense of the word. The pros are generally connected with organized crime. They are, in a sense, businessmen who—until they were apprehended—were probably making a great deal of money by shoplifting. They're not on drugs, they're not drinkers, and they're very clever.

"Techniques . . . Well, years ago you used to see the booster boxes. Asset-protection people know what they are—harmless-looking boxes equipped with a spring panel

or false lid that you can open and close in a flash. But nowadays they've become rare because shoplifters know that if a police officer arrests them with that box in hand, it's an 'implement of crime' carrying additional charges. Booster clothes are still very fashionable—heavy-duty garters, hidden pockets, etc., anything under street clothes that you can stash merchandise in. But the real shoplifting problem is the amateurs, who steal when the opportunity presents itself and generally use nothing more sophisticated than a shopping bag.

"Some of our best new loss-prevention methods are spawning countermeasures, I suppose you could say new techniques, but they're far from high-tech. For example, article surveillance equipment—electronic tags—are terrifically effective. But more and more shoplifters are learning ways to attack the tag. Even two or three years ago, when fewer stores had tags, shoplifters would just move on down the street to a store without tags rather than wrestle with them at their favorite retailer. But today the store without EAS is harder to find. And so I've seen shoplifters cover them up, burn them off, slice them off, pry them off, chew them off. I've actually seen teeth-marks on the tags! Nevertheless, I'm a believer. Retailers sometimes complain that tags aren't foolproof, but they lose sight of the fact that EAS is only a tool to slow down the shoplifter, buy time, prevent the average amateur.

"One of the greatest deterrents to theft is good old customer service. Shoplifters need and want privacy. A salesperson providing a customer with good service is the best weapon against shoplifting that we have. An old-fashioned solution to an old-fashioned crime." ■

Protecting Millions of Dollars in Merchandise at the Minimum Wage

Is a career path the answer?

Mr. Peter Levy, President of Investicorp, a New Jersey-based private investigation firm, is *not* a provider of security guards, but his investigations have made him stop and think about this generally underpaid function.

"I recently investigated a distribution center that deals primarily in consumer electronics. On the surface, it seemed a well-protected place with plenty of security guards. If the guards and their supervisor had been doing their jobs, nothing could have happened. In fact, there were weekly losses on the order of $10,000 in merchandise. The cause was simple, and revealing. One day, a worker saw one of the guards do something that he perceived as dishonest. Within a week, 11 out of the 14 people employed in that section of the building had started stealing. They lined up fences at a nearby bar, and they were in business.

"You ask how it happened. You can talk about security guards—I would guess that the most maligned function in this industry is the security guard. But in reality, you get what you pay for. If somebody wants to protect a building containing millions of dollars worth of merchandise with guards earning the minimum wage, when things go wrong I'm not sure you have the right to be surprised.

"Whether the guard comes through an agency or is on payroll, he tends to be underpaid and undermotivated. He is supposed to stand there in a blue uniform or a blazer, and that's all. How much is that worth? When something happens, people just shrug their shoulders and say, 'What did you expect?'

"But consider: if you can think of ways to enrich the security guard's job, you could raise the qualifications for it and hire better people. And if you paid a living wage, you would have fewer incidents, I'm sure. What's needed is innovative approaches. If I were buying the services of guards, I might want to do it on a cost-plus basis, so that I could to some degree control the rate I'm paying the agency and motivate my guards through better compensation. I would want to offer the possibility of a career path, not just a dead-end job. I'd communicate with guards, congratulate them on jobs well done—and not go looking for them only when something's gone wrong. The whole thing could be turned around by concerned management and give excellent results." ■

Topic: Playing Hardball—
The Role of the Undercover Agent

A "U. C." Can Resolve Internal Situations that Merit Toughness

Careful professional handling required—and patience

On occasion, routine measures aren't enough. You know that you are being robbed internally, the amounts involved are considerable, and you have embarrassing shrinkage reports to prove it —but no idea *who* is doing it and *how*. It may be time to use an undercover agent.

Undercover agents (U.C.'s) require expert management. Poorly handled, they may be risking their lives; properly handled, they provide eyes and ears where needed. U.C.'s often prove able to unmask the best organized, most experienced thieves. Generally hired through specialized agencies, they can be placed in almost any position, anywhere —on the selling floor, as a stock man, in the warehouse, as a customer, even as a uniformed security officer with a secret agenda. They are openly paid the going wage for their position, and covertly paid a premium for their special duties. Here is a case that demonstrates what a U.C. can accomplish.

The management of a major retail chain was aware of a disturbing pattern in its shrinkage reports. Domestics—sheets, pillowcases, etc.—showed shrinkage implying losses by the truckload. Other consumer items showed high losses. The kinds and quantities involved indicated that a particular warehouse shared with other business tenants should be the target of investigation.

Undercover agents were placed as warehouse hands. After several months on the job, they had come up with next to nothing —slight indications of dishonesty, smoke but no fire. The security director managing the investigation reasoned that the thieves were succeeding in getting merchandise over the guarded loading docks at times when the majority of warehouse hands were elsewhere. He therefore positioned a U.C. on the dock with instructions to pose as a brazenly dishonest guard with the hope of flushing out dishonest employees, possibly even a guard, who might want to do business with him. The agent succeeded in making contact—but the thieves were smart enough to be suspicious.

Some weeks later, security received a call from the warehouse manager. "We've got a dishonest guard down here," the manager said, "and we hear he's going to move some merchandise at 3 PM. Get your people down here and catch him!"

Security was floored by the call: just that morning, the agent had telephoned that the entire gang was going to pull off a job at 3. After a moment's thought, it was clear. They were trying to frame the "guard" by planning a theft and then secretly informing the warehouse manager in advance. They wouldn't be there to take the heat. The "guard" would be.

The security director had to do something fast. He sent two investigators down to the warehouse and had them park right across the street from the loading dock in plain view. Of course, nothing happened: no theft, no excitement. At 4:30, security received a colorful call from the warehouse manager: "You send those people down here, they sit right across the street, and the crook must have spotted them! It's like a Sunday church social down here. How do you expect to catch a thief that way?"

Security apologized profusely. "Gee, they made a mistake, we're awfully sorry."

Of course, security had accomplished what it set out to do—and the director of the investigation also realized that the U.C. posing as a guard couldn't crack the case. He pulled him out and rethought the strategy.

The U.C. had provided the identities of the warehouse workers under suspicion, and had also indicated that the men generally ate lunch at a local bar & grill where they liked to shoot pool. This suggested the next step. A U.C. was assigned to hang around the bar at lunch hour, get to know the men, shoot pool with them. The agent chosen for the job was street-wise, credible, efficient; it didn't take him long to develop the information. In two weeks, he told the security director that the gang was ready.

"They're going to steal, and they're even taking orders. What do you want?"

"Well . . . let's have them steal two grandfather clocks. I know it's a little cute, but that's the order I'm placing."

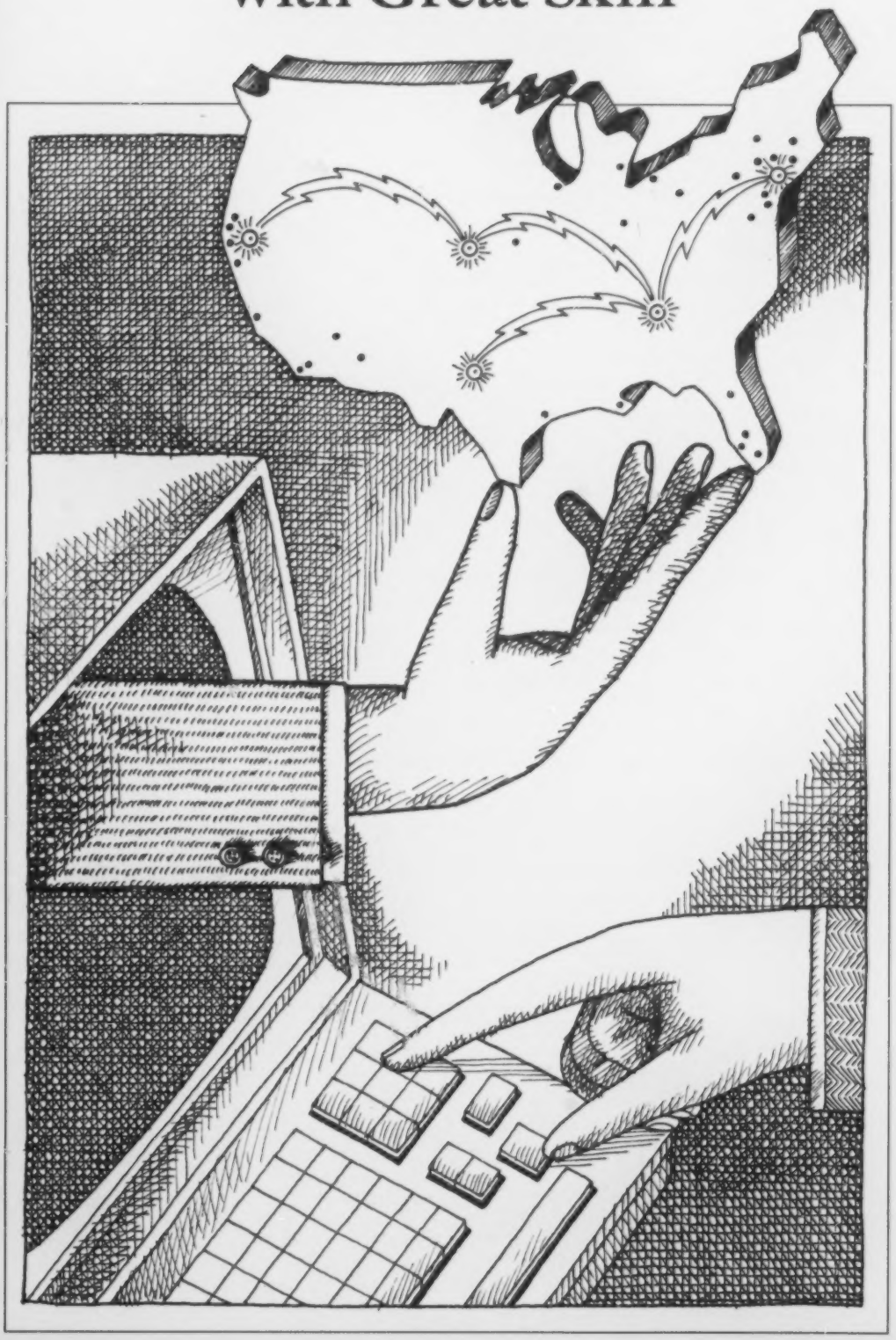
The thieves instructed the U.C. to go to the store as an ordinary customer, check out the merchandise, and let them know what models he wanted. Time and place for delivery were set.

Company was waiting. Investigators witnessed the transfer of goods, made the apprehension, and the gang was exposed.

Under questioning, they confessed to stealing $500,000 in merchandise over a period of two years. The keys to success had been a cooperative elevator operator and the existence of other tenants in the warehouse. At lunch hour, they would take merchandise down the elevator and through *other tenants'* *areas* to their neighbors' loading docks, where organized-crime contacts collected it for resale.

The case took a year to solve. It would have been easy to pull the undercover agents off the job after a few weeks. Many employers who use U.C.'s are quick to remove them on the theory that if they haven't found out anything after a short while, they're unlikely to do so. That can be a serious mistake. It takes time to build a case, time to find and develop leads. Undercover agents are extremely effective weapons against major employee-related shrinkage problems, but they can't accomplish much if you don't give them time. Sophisticated thieves aren't easy catches. ■

Using Great Resources with Great Skill



Interview with James Burger

Director of Loss-Prevention Operations, Saks Fifth Avenue

and Paul Bendorius

Manager of Education and Corporate Investigations, Saks Fifth Avenue

With 41 stores across the United States, Saks has developed a security and loss-prevention communications network that makes it all one store and one effort. Training is continuous and, by design, not dull.

This interview was conducted at Saks' multi-storied administrative center in lower Manhattan, which houses the corporate loss-prevention offices for the entire chain. Bordering the Hudson River piers, the building shares the neighborhood with wholesale butchers and grocers, light industry, famous taverns, and a handful of antique shops responding to "gentrification" in the district—a true marketplace setting for one of America's outstanding merchandisers.

James Burger has been with Saks Fifth Avenue for eight years. Equipped with a degree in criminal justice from John Jay College, he was Director of Loss Prevention and Inventory Control for Plymouth Shops, New York, before joining Saks. Paul Bendorius, a Saks security and loss-prevention associate for 19 years, served on varied security assignments for the U.S. Marines after studying engineering at Brooklyn College.

JB: Shortage control isn't all that complicated. There are basic things to do, and often people just don't do them. A lot of the time, we start to run before we really walk. If you are doing the basics right, sometimes you don't even reach the stage where you need high-tech solutions. Our approach is to begin by doing these basics properly, but we are ready to try other things when they make sense.

Editors: What do you count as the basics?

JB: The most basic element of all is sales people who pay attention to customers. Have that, and you have most of your external problems solved. Just as important is auditing: checking-in merchandise properly, price audits, mark-down audits, stockroom audits, fitting-room audits. When those things are well done, you can go into other areas—internal investigations, EAS, CCTV, and so on. What *underlies* it all is employee education and awareness.

Editors: Let's go into that. What do training and education mean at Saks?

JB: They mean *communication*. With 41 stores spread across the country, the home office has had to learn to package effective training

and communicate it far and wide, and we've had to develop a communications network to keep a steady flow of information moving to loss-prevention associates throughout the chain. For example, Paul has just distributed a new training manual for security personnel—it's something that we've wanted to do for a long time, but a good manual takes time to write and edit.

PB: Yes, it's a detailed manual showing store detectives and loss-prevention auditors just what their jobs entail at a nitty-gritty level. It's designed around a series of lessons and tests, and we actually record test results and track the associates' progress. At the moment, it consists of 17 or 18 lesson plans, but we're still expanding it.

The manual is only one level of training communication. We also distribute videotapes on security and loss prevention for all associates at all levels. The most notable tape, purchased from a California supplier but customized for Saks, deals with professional shoplifting. The host of the show is an ex-con, a man with something like the charisma of Jack Nicholson, who tells you about the various techniques and then casually joins a shoplifting team to show you how it's done. We show the tape to all store associates (that's our generic term for employees) —but we don't show it all at once. It's broken into short modules, just the right length for the short sales floor meetings that you can always find time for. Fifteen-minute meetings are easy to organize, longer ones hard. We're constantly educating, reminding our sales associates and security professionals, but we go out of our way not to bore them. We keep refreshing our approach and our message.

JB: One of the best means we have at our disposal is called Alert Scan. You know, you can hit a person over the head with a stick and say, "This is your training, this is what you need to know," with classroom material and a coercive, classroom-style of learning. But there are other ways—for example, news. News is a form of knowledge. With this idea in mind, we tapped into Saks' nationwide computer-based information network and created a daily newspaper for store managers and loss-prevention associates. It's really an electronic mail system devoted to loss prevention, and it works beautifully.

PB: Saks' network has been used in the past, and of course still is, to communicate operational information of all kinds—inventory needs, orders, and so on. The home office can communicate with all stores through the system. We simply added Alert Scan to the menu—a daily, changing burst of news on security

and prevention topics. There is hardly anything of real interest that happens, let's say on a Tuesday, that we don't have out on those screens by Wednesday. To take a recent example, we learned that a shopping mall guard near a Saks location decided to help the local police make an apprehension—by firing a shotgun through the window of a suspect's car! We wrote that up for Alert Scan and communicated it as news. Well, it *is* news, but it also makes you think: My gosh, this could happen to me! What kind of guards are there on the mall here? What policies and procedures are they supposed to be following? Are they potentially helpful to Saks, or are they a bunch of wild men that I should know more about?

We never draw the moral of the story—never turn Alert Scan reports into lessons, although sometimes a senior loss-prevention manager will add a comment at the bottom of a newsbrief. Our colleagues out there in New Orleans, Atlanta, San Diego have to think it through for themselves and see what, if anything, applies to their own store environments. People don't think of this as training, but it is, and it's effective.

JB: When you think about it, we've really looked into *indirect* security and prevention training. Another example is our Quality Service program. Ostensibly it has nothing to do with security, and everything to do with how associates approach and serve customers. But a lot of surveys have shown that the most important thing that a nonsecurity associate can do to prevent external theft is to approach customers. So the Quality Service program is actually helping us, too.

Associates know better than the store manager what's going on in the store. We work to get them to understand that a part of their on-the-job responsi-

"A lot of the time we start to run before we really walk."

"Eight dollars have been saved for every dollar of reward money."

bility is shrinkage control, be it from external or internal theft. If an associate is stealing from the company, you can be sure that he or she will steal from you next, if the opportunity arises. And over the years, more so now than perhaps five years ago, we have had excellent cooperation from sales associates. We pay awards for information leading to apprehensions, and we've calculated that $8 have been saved for every $1 of award money. Last year, about 40% of the internal cases that we solved were based on information from associates. Of external cases—shoplifting—we owed 35% to alerts provided by nonsecurity associates. Obviously, we're never going to be able to retire our store detectives and security guards, but we have built and we are maintaining an excellent level of cooperation from nonsecurity associates.

PB: You were speaking of indirect means. A lot of little things add up. For example, we are just now completing the second annual shortage-prevention poster contest. Associates in all the stores are invited, as individuals or in teams, to submit a poster design. We select one from each store, then one from each region, and finally a nationwide winner and runner-up. We offer increasingly generous gift certificates as awards, as they move up to the finals—and we actually print and distribute the winner and runner-up, you'll see them in all our warehouses and service areas. We're considering making a calendar from the artwork this year.

Is this meaningful? Is this important? Well, as I said, a lot of little things add up. Associates enjoy this contest, it keeps them thinking about shortage prevention, and the result is a really fine poster that puts our message across in their terms.

You have to look in two directions: toward educating associates and, believe it or not, toward educating upper management. In 1983, we conducted a thorough financial review with senior management, and together we realized that loss-prevention and security work had added very substantially *to the bottom line*. We have excellent support from top management. They can see just as clearly as we do that we are in effect a profit center.

Editors: We've been speaking of employee training and employee-related programs. But Saks must also rely on technology to control shrinkage. What have you been doing in this area?

PB: We have built our own closed-circuit TV system from scratch. As a matter of fact, we have it back here.

(*Paul left the room and returned tenderly carrying a small black-and-grey unit composed of an electronics housing and a smoked-plastic dome.*)

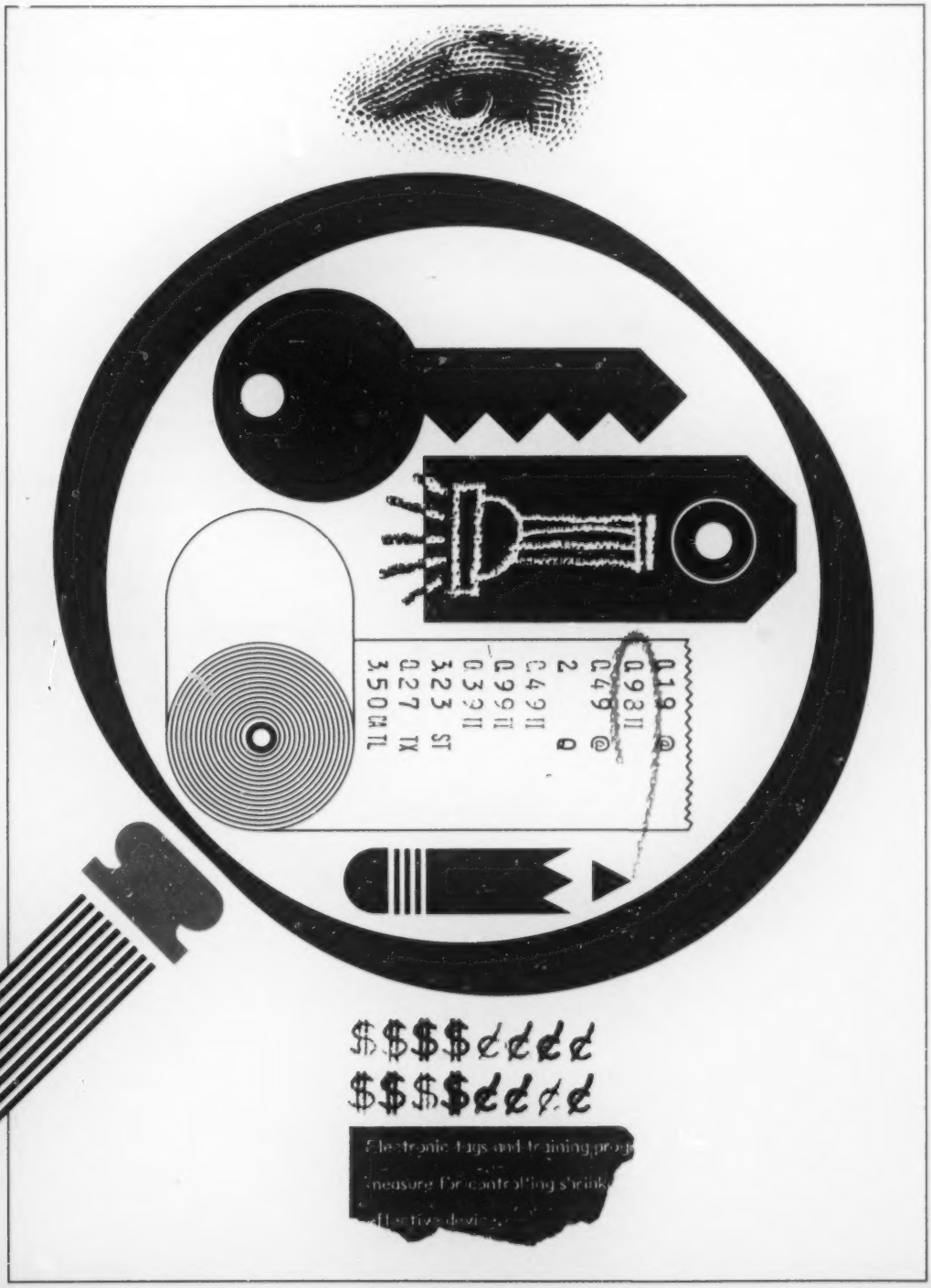
PB: If you go to a security products firm, it will gladly sell you something for $3,000 or $5,000. And we started to ask ourselves: a mirrored globe in the ceiling with a camera behind it can't be that hard to build. Let's give it a shot. We put a model together for $300, using parts from a local electronics shop. Everything on this unit we built ourselves —and it works as well as high-priced ones with all the bells and whistles.

JB: We're in the process of looking into contracting out —to manufacture them by the hundreds. We'll probably be able to put together ten of these for the price of one commercial unit. We expect to use them primarily in stock rooms, freight elevator landings, and so on—not so much on the sales floor. We have had some globes on the sales floor. They're expensive, and I don't know that we have gotten a lot of cases out of those cameras. However, they have a deterrent value.

Editors: Gentlemen, we've had an interesting time talking together. Is there any concluding observation that you'd like to make?

JB: Yes, there is. *The way you look at security and loss prevention is key.* Apprehending employees—that's nasty, you don't want to do it, and we don't like doing it. But it has to be done. We always emphasize the positive aspects of security. We stress with people that our function is not just loss prevention but *profit improvement*. We're here to help you. If we work together, we're going to improve profits, and that's our common goal. We are a profit improvement group.■

The Seventh Annual Survey of Security and Loss Prevention



Highlights

One hundred sixty-eight retailers, operating in more than 36,000 locations, participated in this year's study in the following retail categories: 78 mass merchants, 44 department stores, and 46 specialty stores.

- Average shrinkage levels increased in 1984 to 1.7%, up 6% from the 1.6% reported in 1983. This level of shrinkage cost the participating companies more than $1.9 billion in 1984.
- An average of .42% of sales was spent on security and loss prevention in 1984, up 2% from 1983.
- On average, over one-half of the participating retailers' security budgets are allocated to payroll expenses, including internal guards and other payroll expenses.
- Sixty percent of the retailers report the inclusion of regional and store-level loss-prevention managers on the payroll, in addition to guards, and 36% include loss-prevention audit and training staffs.
- A higher percentage (16%) of the security budget was allocated to electronic tags in 1984, up 3% from 1983. Companies using EAS report that in nine out of ten cases it has helped reduce shrinkage levels.
- Other "high-tech" devices in use include visible TV cameras, point-of-sale (POS) systems, and pin-hole video cameras.
- Fast-growth companies are allocating a larger portion of their security budget to EAS and other electronic equipment than slow-growth companies.
- Self-teaching training manuals and videotapes are the most frequent training materials, generally developed by internal personnel.
- More than three-quarters of the respondents have continuing training programs. These follow-up programs are typically developed and conducted by internal personnel.
- More than three-quarters of the responding retailers have shrinkage awareness programs. Popular formats include periodic meetings, newsletters/magazines, and poster campaigns.
- Electronic tags and training programs were perceived to be the most effective measure for controlling shrinkage. Mirrors continue to be perceived as the least effective device.
- A majority of high-shrinkage companies (55%) view communication between management and employees as an area which would reduce shrinkage, while low-shrinkage companies are, in the aggregate, less concerned about improving communication (28%).
- Most respondents view their company's loss-prevention program as somewhat effective (65%). Low-shrinkage companies (32%) view their programs as very effective more often than high-shrinkage companies (21%).

Scope and Method of Study

This report, seventh in a series conducted by Arthur Young under the sponsorship of the National Mass Retailing Institute, is designed to assist retailers to develop new loss-prevention programs and to evaluate those in current use. This year's survey explores training programs in depth and provides, as always, the shrinkage statistics that have become industry benchmarks.

The study encompasses the following types of retail enterprises:

- **Mass Merchants**
  Discount, general merchandise, drug, and variety chains with multiple departments, central checkout, and limited selling staff.
- **Department Stores**
  Multidepartmental retailers offering departmental checkout with highly visible selling service. This category includes specialty stores with the principal characteristics of department stores.
- **Specialty Stores**
  Retailers with few departments, central checkout, and generally 7,500 square feet or less of selling space.

The information for this survey report was accumulated by questionnaire in the spring and summer of 1985, and is generally based on fiscal 1984 data. Participation was solicited from the membership of the National Mass Retailing Institute and from a diversified sample of retail companies. In total, nearly 170 companies responded. Every response was reviewed for completeness and consistency to ensure accurate processing and appropriate use of information.

Where multiple responses were permitted, the tables do not foot to 100%.

Wherever the term *stores* is used in this report, it refers to companies except where it clearly designates specific numbers of stores.

This year, high and low shrinkage were defined as follows for each retail segment:

- for mass merchants and specialty stores, low shrinkage = less than 1.0% of sales, high shrinkage = more than 2.0% of sales
- for department stores, low shrinkage = less than 1.5% of sales, high shrinkage = more than 2.5% of sales.

The terms "fast growth" and "slow growth" refer to percentage change in sales revenue from 1983 to 1984. Companies with less than 10% growth in sales are categorized as "slow-growth," while those with better than 20% growth are considered "fast-growth."

Food-store findings and statistics are not included in the main body of this report; a report on food retailers appears in the Appendix.

The Participants

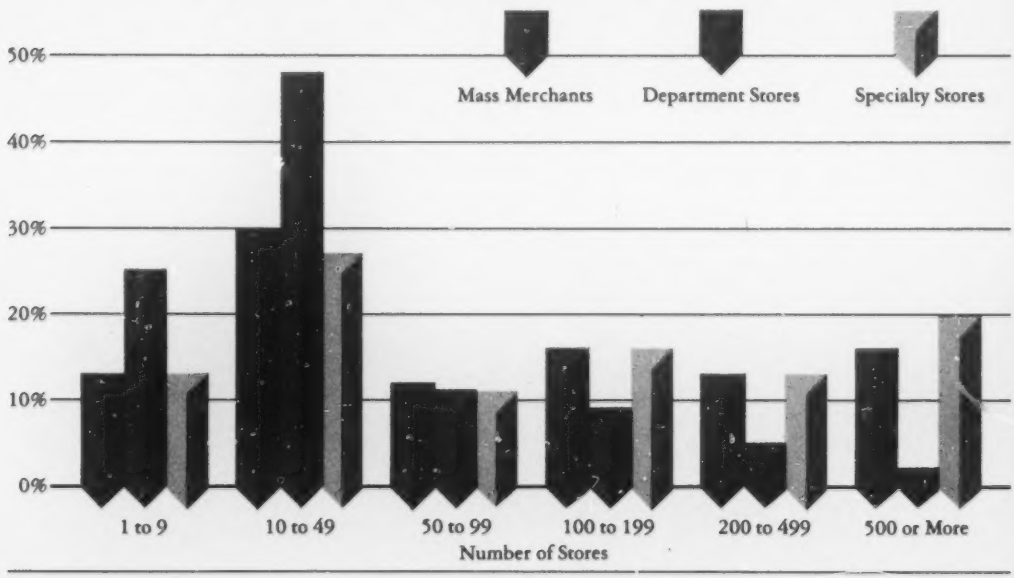
The 168 retail organizations participating in this year's study operate in more than 36,000 locations with total sales of more than $124.6 billion. Of these 168 enterprises, 78 are mass merchants with more than 20,600 locations and aggregate 1984 sales in excess of $99.3 billion. This year's participants also include 44 department-store chains in nearly 4,000 locations with 1984 sales approaching $17 billion, and 46 specialty-store companies in nearly 11,600 locations with sales of $8.4 billion.

Table 1 **The Participants**

	Number of Companies	Number of Stores	Sales Volume ($ Billions)
Mass Merchants	78	20,604	$ 99.3
Department Stores	44	3,978	16.9
Specialty Stores	46	11,587	8.4
	168	36,169	$124.6

Nearly half of the respondents had more than 50 store locations; 13% had at least 500 stores. As expected, mass merchants and specialty-store companies had more store locations than did department-store chains; in excess of 40% of both mass merchants and specialty stores reported at least 100 locations. In comparison, only 16% of the reporting department stores had at least 100 locations.

Chart A **Analysis of Participants by Number of Stores**



Over 60% of the participants report 1984 sales in excess of $100 million, while 36% had sales of $100 million to $499 million. For 1983, 58% of the participants report sales greater than $100 million, and 37% had sales of $100 – $499 million.

Table 2 **Number of Participants by 1984 Sales Volume**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Under $10 Million	1	0	2	3
$10 to $49 Million	9	9	10	28
$50 to $99 Million	12	8	13	33
$100 to $499 Million	27	19	15	61
$500 Million and Over	28	8	6	42

Eighty-two percent of the participants report operating at least half of their stores in suburban locations. This overall figure corresponds to 81% of the mass merchants, 85% of the department stores, and 79% of the specialty stores.

Table 3 **Percentage of Participants by Store Location**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
100% Urban	5%	0%	0%	2%
1% to 49% Suburban	14	15	21	16
50% to 74% Suburban	36	29	29	33
75% to 99% Suburban	22	41	38	31
100% Suburban	23	15	12	18

Shrinkage Results

Study participants report inventory shrinkage to be, on average, 1.7% of sales for 1984—a 6% increase from the 1.6% reported for 1983. Examined by retail segment, average shrinkage levels increased for department stores from 1.8% in 1983 to 2.0% in 1984, but remained constant for specialty stores (1.6%) and mass merchants (1.5%). In 1984, shrinkage cost participating companies in excess of $1.9 billion.

Table 4 **Shrinkage Results by Retail Category**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Percentage of Shrinkage 1984	1.5%	2.0%	1.6%	1.7%
Percentage of Shrinkage 1983	1.5	1.8	1.6	1.6
Amount of Shrinkage 1984 ($ millions)	$1,470	$296	$134	$1,900

On average, companies with sales of $500 million or greater report shrinkage of 1.7%, while companies with under $100 million in sales report shrinkage of 1.5%.

Reported shrinkage results are affected by the inclusion or exclusion of items such as markdowns, damages, and known theft or loss. Most retailers account for and control markdowns separately under the retail inventory method. However, some retailers' systems do not allow them to capture all markdown data separately, and their shrinkage figures therefore include markdown losses. Among those retailers that exclude certain items:

- 76% exclude markdowns
- 64% exclude damages
- 36% exclude known theft or losses
- 36% make no exclusions.

Low-shrinkage stores are more likely to exclude markdowns, damages and prior year's invoices, whereas high-shrinkage companies are more likely to exclude known theft or losses.

Shrinkage Attributions

Since retailers have no way of accurately measuring the individual components of the causes of shrinkage, the following graph reports the considered opinions of retailers in the survey population.

The participating retail organizations attribute approximately 43% of this year's inventory shrinkage to employee theft, 30% to customer shoplifting, 23% to poor paperwork control, and 4% to vendor theft. Vendor theft is defined as theft by vendor representatives on the selling floor and at stock or distribution areas. Customer shoplifting is taking a smaller toll than internal factors such as employee and vendor theft and poor paperwork control.

Chart B **Shrinkage Attributable to Internal vs. External Factors**

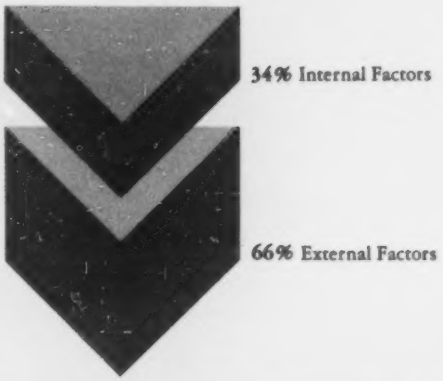
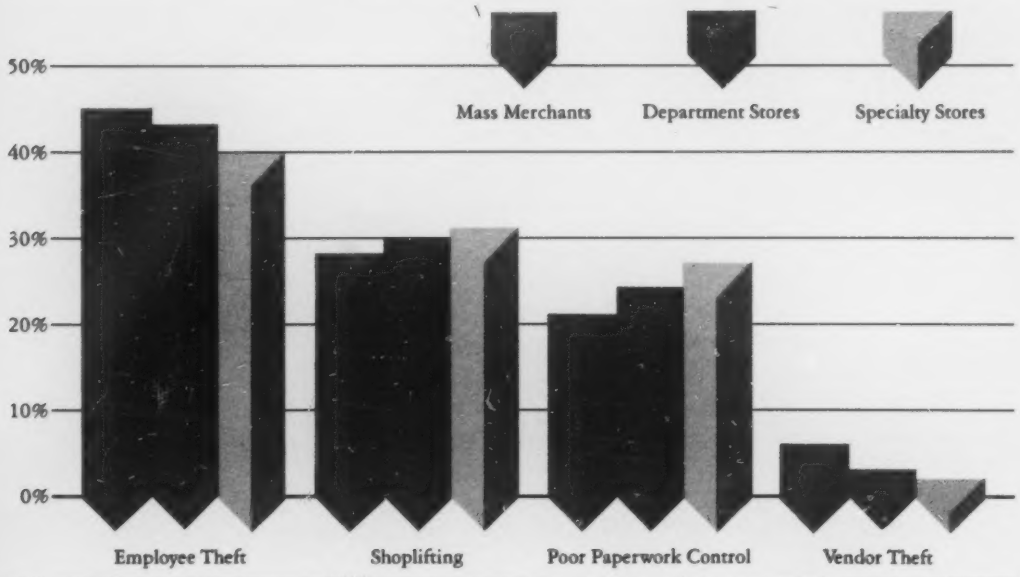


Chart C **Attributions of Aggregate Shrinkage by Store Type**



Expenditures for loss-prevention staff, equipment, and programs for fiscal 1984 increased, but at a much lower rate than reported last year. As a percentage of sales, security and loss-prevention expenditures averaged .42% in 1984 and .41% in 1983, a 2% increase. This percentage translates to $483 million spent on loss prevention and security by our survey population.

The surveyed mass merchants reported a lower percentage of sales spent on security (.37%) than either specialty stores (.41%) or department stores (.50%).

Larger companies (.41%) are still spending proportionately less on security and loss prevention than smaller companies (.43%), although the gap is not as large as previously reported.

Low-shrinkage companies are spending a smaller percentage of their sales on security. For low-shrinkage companies, the expenditure averaged .29% of sales, while high-shrinkage companies averaged .57%.

Table 5 **Percentage of Participants by Percentage of Loss-Prevention Expenditures***

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Less than .1%	10%	10%	11%	10%
.1% to .24%	27	13	38	26
.25% to .49%	37	31	28	33
.5% to .99%	23	41	17	27
1% or More	3	5	6	4

*Percentage of loss-prevention expenditures as percentage of 1984 sales volume

Allocation of Loss-Prevention Expenditures

On average, over one-half of the retailer's security budget is spent on payroll expenses: 32% for internal guards and 23% for payroll other than guards.

We inquired this year as to what types of employees are included in the payroll, other than guards, and received the following response:

- 86% include the loss-prevention director
- 70% include the loss-prevention office staff
- 60% include the store- and regional-level loss-prevention office staff
- 36% include the loss-prevention and audit-training staffs.

In addition to the security budget allocated to personnel, an average of 16% of the security budget was allocated to electronic tags (10%) and other electronic equipment (6%)—an increase of 13% (9% electronic tags, 4% other electronic equipment) over the 1983 allocation to high-tech devices by this year's survey participants.

Table 6 **Allocation of Loss-Prevention Expenditures**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Electronic Article Surveillance (EAS)	8%	11%	14%	10%
Other Electronic Equipment	6	5	6	6
Physical Facilities	6	4	7	6
Internal Guards	34	44	15	32
External Guards	9	6	11	8
Payroll other than Guards	21	19	29	22
Outside Services	5	3	6	5
Incentive Programs	1	1	3	2
Training	5	3	3	4
Other	5	4	6	5

Nearly half (47%) of the retailers allocated a portion of their 1984 budgets to electronic article surveillance (EAS). A higher percentage of department stores (57%) and specialty stores (58%) reported using EAS than mass merchandisers (36%). High-shrinkage companies are more than twice as likely to use EAS than their low-shrinkage counterparts (67% and 33%, respectively). An overwhelming majority (89%) of the retailers using EAS report that it has helped to reduce shrinkage levels.

Table 7 **Has EAS Reduced Shrinkage Levels?**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
YES	75%	96%	96%	89%
NO	25	4	4	11

For the better than 50% of the surveyed retailers who do not use an EAS system despite the favorable results reported by EAS users, the most prevalent reason for not using it is the initial cost of implementation (50%). Management philosophy (43%) is another commonly occurring constraint.

In addition to EAS, retailers are utilizing other types of electronic equipment to aid them in their effort to combat loss. In 1984, 6% of the security budget was allocated to these expenditures (compared to 4% in 1983). Of the companies using some type of electronic equipment other than EAS, 71% have visible TV cameras, 56% use their point-of-sale (POS) system, and 52% use pin-hole video cameras.

Table 8 **Types of Electronic Equipment in Use, Other than EAS**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Pin-hole cameras	50%	69%	32%	52%
Point-of-sale systems	42	64	80	56
Visible TV cameras	82	72	44	71
Other	5	14	8	8

Fast-growth companies (27%) are allocating a larger portion of their budget to EAS and other electronic equipment than slow-growth companies (12%). However, fast-growth companies allocate a smaller percentage (41%) of their budget to payroll expenses than slow-growth companies (58%).

Shrinkage Control Devices and Methods

Training programs (83%) were reported to be the most commonly used device or method to control shrinkage. Mass merchants and specialty stores reported them to be the most common method, with department stores reporting them as the second most prevalent method. Limited-access areas and guards (81%) were reported to be the other most commonly used device or method.

Mirrors, previously reported as the most popular method, have decreased in popularity; they are now ranked fourth. Mirrors were in fact reported to be the least effective method by the highest percentage of respondents (64%). Ranking second in this category of common but relatively ineffective devices were visible TV monitors (16%). Companies continue to use the method rated as least effective because the cost is minimal (63%), and store employees (39%) and customers (34%) perceive it to be an effective control measure.

Table 9 **Reasons for Continued Use of the Shrinkage-Control Method Rated as Least Effective**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Cost to continue using device is minimal	72%	51%	59%	63%
Store employees perceive the device to be effective	38	42	39	39
Customers perceive the device to be effective	30	42	32	34
Company management perceives the device to be effective	10	19	12	13

In companies that use them, electronic tags (60%) and training programs (28%) were judged to be the most effective device or method for controlling shrinkage. In the following section, we explore the types of training in use.

Improved ongoing education in loss prevention (71%) was judged overall to be the most effective method to reduce shrinkage. Other actions viewed by retailers as contributing valuably to shrinkage reduction are increased control at the cash register (56%) and improved employee screening (55%). Improving communication between management and employees seems particularly important to high-shrinkage companies (55%) as compared to their low-shrinkage counterparts (28%).

Table 10 **Security Devices Used on the Selling Floor**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Electronic Tags	37%	59%	59%	49%
Guards/Detectives	86	89	66	81
Limited-Access Areas	83	86	71	81
Lock-and-Chain Devices	66	84	66	71
Mirrors	82	80	73	77
Observation Booths	53	64	18	46
Point-of-Sale Systems	50	73	75	63
Visible TV Monitors	59	55	32	51
Concealed TV Monitors	54	61	18	46
Fitting-Room Attendants	45	59	27	44
Training Programs	86	86	75	83
Other	9	0	7	6

Table 11 **Percentage of Participants Using a Security Device Who Believe it to be the *Most* Effective**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Electronic/Magnetic Tags	50%	54%	77%	60%
Guards/Detectives	31	23	17	26
Limited-Access Areas	6	5	10	8
Lock-and-Chain Devices	0	3	3	2
Mirrors	2	3	0	2
Observation Booths	8	7	0	7
Point-of-Sale Systems	16	6	0	8
Visible TV Monitors	2	0	7	2
Concealed TV Monitors	5	7	13	7
Fitting-Room Attendants	3	0	0	1
Training Programs	30	24	27	28
Other	5	0	6	4

Table 12 **Percentage of Participants Using a Security Device Who Believe it to be the *Least* Effective**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Electronic/Magnetic Tags	7%	4%	12%	8%
Guards/Detectives	6	5	24	10
Limited-Access Areas	8	11	0	7
Lock-and-Chain Devices	10	8	7	9
Mirrors	69	57	63	64
Observation Booths	13	11	25	13
Point-of-Sale Systems	3	0	0	1
Visible TV Monitors	11	17	29	16
Concealed TV Monitors	5	0	25	5
Fitting-Room Attendants	6	23	8	13
Training Programs	0	0	0	0

Table 13 **Shrinkage Control Devices**

Devices By Frequency Of Use	Devices Judged To Be Most Effective	Devices Judged To Be Least Effective
Training Programs	Electronic/Magnetic Tags	Mirrors
Limited-Access Areas	Training Programs	Visible TV Monitors
Guards/Detectives	Guards/Detectives	Fitting-Room Attendants
Mirrors	Point-of-Sale Systems	Observation Booths
Lock-and-Chain Devices	Limited-Access Areas	Guards/Detectives
Point-of-Sale Systems	Concealed TV Monitors	Lock-and-Chain Devices
Visible TV Monitors	Observation Booths	Electronic/Magnetic Tags
Electronic/Magnetic Tags	Visible TV Monitors	Limited-Access Areas
Concealed TV Monitors	Lock-and-Chain Devices	Concealed TV Monitors
Observation Booths	Mirrors	Point-of-Sale Systems
Fitting-Room Attendants	Fitting-Room Attendants	Training Programs

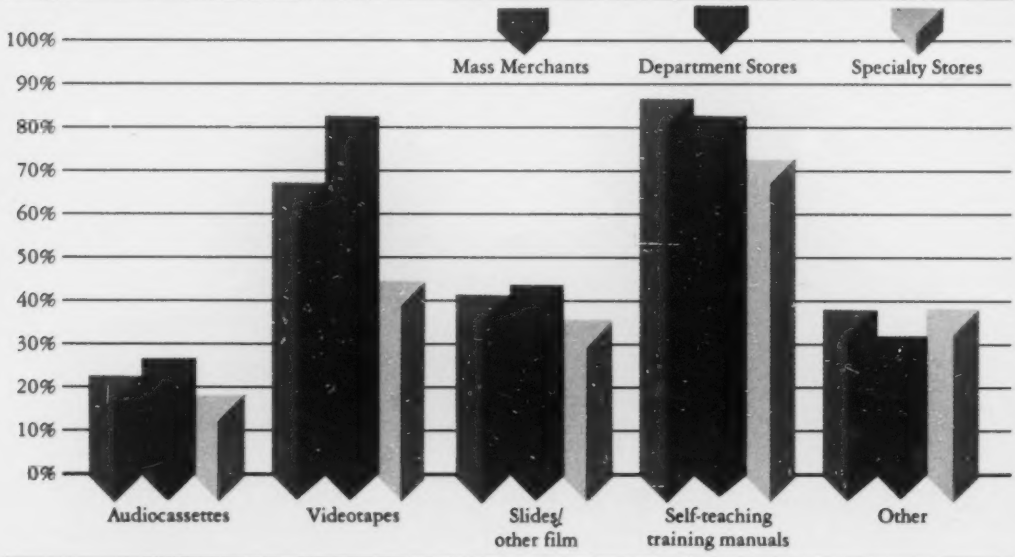
Training Programs

As in prior years, survey participants believe training of both loss-prevention and other types of store personnel to be one of the most important ways to reduce shrinkage. In response to your interest, we expanded the 1985 questionnaire to investigate this topic in greater detail. We received a startlingly consistent range of responses on training: retailers use training procedures, find them effective, and are interested in what other retailers are doing.

Orientation Training

Self-teaching training manuals and videotapes are the most widely used orientation training for both security and nonsecurity personnel. Department stores are more likely than either mass merchants or specialty stores to use videotapes for both security and nonsecurity personnel. While both fast- and slow-growth companies are likely to use self-teaching manuals and videotapes, more fast-growth companies are using audiocassettes and slides than slow-growth companies.

Chart D **Methods Used for Orientation Training of *Security* Personnel**



Loss-prevention orientation training for security and nonsecurity personnel is conducted by internal personnel in both branch store locations and corporate headquarters.

Fewer than 5% of the respondents utilize an outside training consultant to conduct orientation seminars.

Chart E **Methods Used for Orientation Training of *Nonsecurity* Personnel**

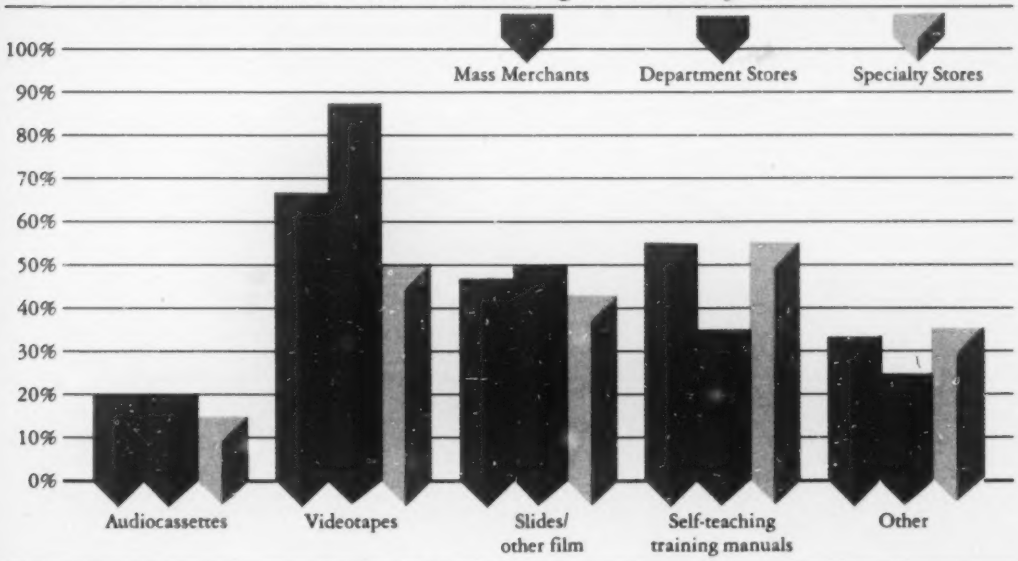


Table 14 **Orientation Training**

At corporate headquarters

Conducted by:	For Security	For Nonsecurity
Store personnel (internal)	82%	89%
Outside training consultant	5	2
Other	13	9

At branch-store locations

Conducted by:	For Security	For Nonsecurity
Store personnel (internal)	92%	93%
Outside training consultant	1	2
Other	7	5

Most of the orientation programs were developed by internal personnel; however, some retailers (14%—security; 12%—nonsecurity) did collaborate with outside training consultants to develop their companies' programs. Department stores were more likely to collaborate with an outside consultant in developing their company's loss-prevention orientation program for both security (26%) and nonsecurity (21%) personnel.

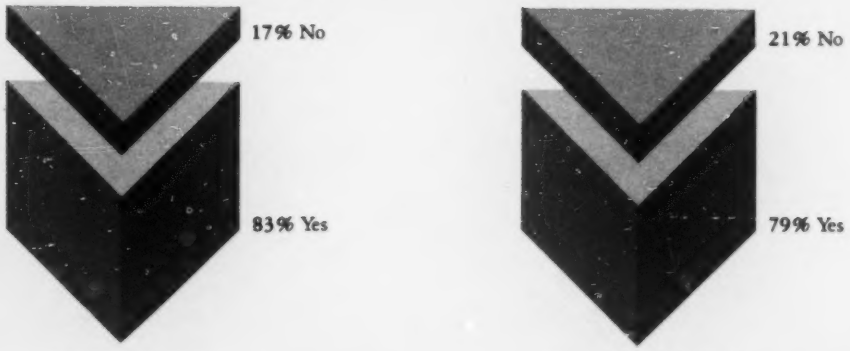
Table 15 **Orientation Training *Developed* by . . .**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Security Personnel				
Internally developed	91%	72%	88%	85%
Externally developed	1	2	0	1
Collaboration of internal and external personnel	8	26	12	14
Nonsecurity Personnel				
Internally developed	87%	79%	90%	86%
Externally developed	4	0	0	2
Collaboration of internal and external personnel	9	21	10	12

Follow-up Training

Overall, 83% of the reporting companies have continuing training programs to update security personnel in loss prevention, and over three-quarters (79%) update nonsecurity personnel as well.

Chart F **Usage of a Continuing Training Program**



Over 90% of the companies consider their existing training programs to be effective in reducing shrinkage. Twenty-eight percent find the program to be very effective, and 64% rate it as somewhat effective.

Low-shrinkage companies are more likely to view their company's program as very effective (32%), while only 21% of the high-shrinkage companies are equally satisfied.

Table 16 **Perceived Effectiveness of Current Training Program in Reducing Shrinkage**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Very Effective	32%	20%	29%	28%
Somewhat Effective	61	76	59	64
Not Effective	3	2	0	2
Can't Determine	4	2	12	6

Security Personnel

Mass merchants and department stores (88%) are more likely than specialty stores (68%) to have continuous training programs. High-shrinkage companies (93%) are more likely to conduct continuous training programs than low-shrinkage companies (73%).

Self-teaching training manuals and videotapes were the most widely used types of follow-up training for security personnel. Videotapes are being used by more department stores (66%) than by either mass merchants (58%) or specialty stores (27%).

Videotape training programs require investment in the necessary equipment. While this may not be prohibitively expensive for a retailer with many employees in a centralized location (such as a department store), it may be less feasible for specialty stores with many smaller locations and decentralized personnel.

Table 17 **Types of Follow-Up Training Programs**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Follow-Up Training for Security Personnel				
Audiocassettes	16%	11%	11%	13%
Videotapes	58	66	27	52
Slides or Other Films	39	53	38	37
Self-teaching Training Manuals	64	57	42	56
Other	34	41	27	34
Follow-Up Training for Nonsecurity Personnel				
Audiocassettes	14	7	16	13
Videotapes	60	73	38	57
Slides or Other Films	39	36	40	39
Self-teaching Training Manuals	43	23	44	38
Other	25	36	29	29

Nonsecurity Personnel

As previously mentioned, nearly 80% of the retailers conduct some form of training for employees not formally involved in security. Mass merchants (83%) are the most likely to provide training for nonsecurity personnel; the figures are lower for specialty (78%) and department stores (74%).

Surprisingly, high-shrinkage companies (85%) are more likely to conduct training for nonsecurity personnel than low-shrinkage companies (75%). Nonsecurity personnel are most likely to receive follow-up training in the form of videotapes (57%) or slides/films (39%). The findings for nonsecurity personnel are similar to those reported for security personnel: for follow-up training, department stores are more likely to use videotapes (73%) than either mass merchants (60%) or specialty stores (38%). Videotapes are used only once or twice a year by over 80% of the respondents (85% security, 88% nonsecurity) who have invested in video. Self-teaching training manuals are used more frequently. Thirty-two percent of the companies that report the use of self-teaching training manuals use them four times per year or more for security personnel; 28% use them with the same frequency for nonsecurity personnel.

Nonsecurity personnel are more likely to receive follow-up training at branch locations (87%) than at corporate headquarters (47%). Ninety-one percent of the follow-up training programs for nonsecurity personnel were developed by company employees; another 9% were developed in collaboration with an external source. Department stores reported that 3% of their training programs were developed entirely on an external basis. They were the only retail segment to report this type of training program development.

Shrinkage Awareness Programs

More than three-quarters of the retailers have programs to inform employees about shrinkage issues in their companies. High-shrinkage companies (85%) are more likely to institute such programs than low-shrinkage companies (72%). Shrinkage awareness programs take various forms: periodic meetings (91%), newsletters/magazines (59%), and posters (59%). Department stores report a higher incidence of all types of shrinkage awareness programs than either mass or specialty stores.

Staffing Practices

Thirty-four percent of the retailers employ more than 50 full-time equivalent (FTE) employees in the security function. As expected, department stores are more likely to have larger security staffs (51% have more than 50 FTE employees) than either specialty stores (2%) or mass merchants (43%).

High-shrinkage companies are likely to have larger security staffs than low-shrinkage companies: 60% of the high-shrinkage companies employ more than 20 FTE employees in security, as compared to 42% of the low-shrinkage companies.

Table 18 **Percentage of Participants by Number of Full-Time Employees in the Security and Loss-Prevention Function**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
0	4%	2%	9%	5%
1 to 4	19	7	33	20
5 to 9	8	14	19	13
10 to 19	8	5	23	12
20 to 49	17	21	14	17
50 to 99	7	17	0	8
100 or More	37	34	2	25

Communicating with Employees about Theft

When an employee is caught stealing, a retailer faces a decision regarding what to do with the information. The choice is either (1) to report the information publicly, with the hope that the announcement will deter future acts of pilferage and communicate the store's policy, or (2) to keep the matter private and protect the employee from embarrassment.

According to our survey results, over half of the retailers (53%) make no special announcement when an employee is caught stealing. However, they do announce the event and apprehension through informal oral communication (24%) or the regular employee newsletter (19%). On average, only 8% attempt to keep the matter private.

Reward and Recognition Programs

Reward programs are based on the premise that the majority of employees can be motivated to help reduce shrinkage. Monetary awards may be given to individual employees for information that leads to an apprehension, suggestions on loss prevention, and contributions to improvement in departmental or store-wide shrinkage. Some companies have instituted systems whereby all employees share in the benefits of improved shrinkage results. Companies that do not provide monetary awards may either put a commendation in the employee's file or give the employee a certificate of merit.

Seventy-seven percent of the participants report either a reward or recognition system. Participants were asked how they reward employees for improved loss prevention. Among companies with such programs, 47% pay nonsecurity personnel for helping to reduce shrinkage, while only 8% of security personnel are given monetary rewards. Recognition programs, such as citations or awards, are also popular. Two-thirds of the retailers have these programs, and an additional 24% report the implementation of a shrinkage suggestions award program. Twenty-three percent report that they have no programs at all.

Table 19 **Reward Policies for Improved Loss Prevention**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Pay Nonsecurity Personnel for Apprehensions	34%	68%	52%	47%
Pay Security Personnel for Apprehensions	10	6	6	8
Pay all Employees for Shrinkage Reduction	13	6	9	10
Pay Employees Responsible for Departmental Shrinkage Reduction	26	18	30	25
Recognition of Personnel for Apprehensions	63	53	61	60
Recognition of Personnel for Shrinkage Control	48	50	46	48
Shrinkage Suggestions Award Program	23	27	24	24
Other Rewards	16	9	6	12
No Rewards	22	17	31	23

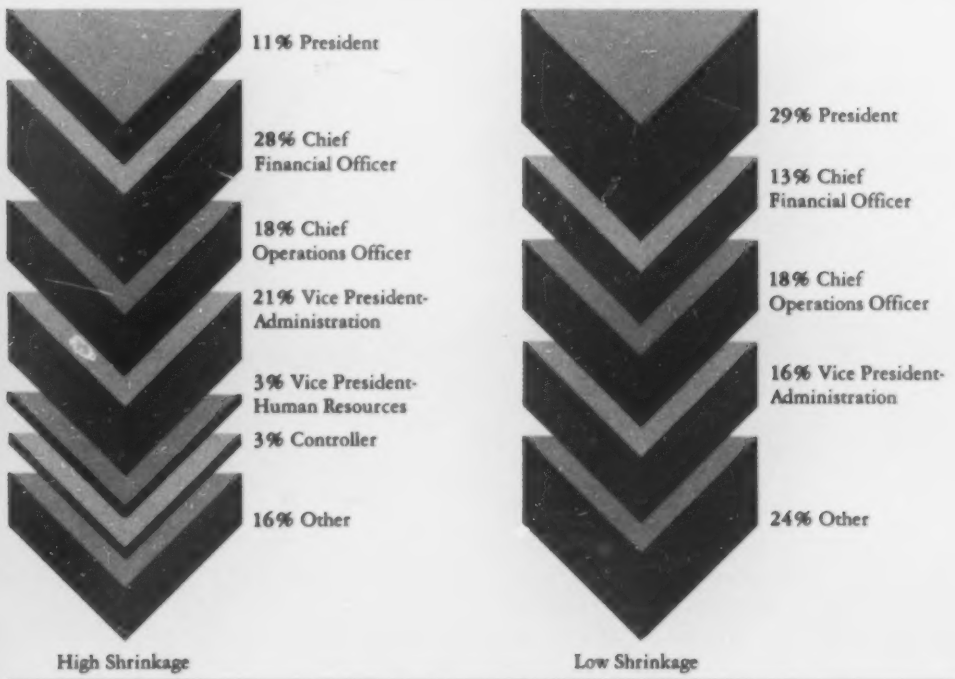
Organization Reporting

The corporate security head in a retail company may report to a variety of senior management members such as the president, chief financial officer, chief operations officer, controller, or a functional area vice president. This year, the most common reporting relationships are to the chief operating officer (22%), president and chief financial officer (20%), and vice president/administration (16%).

In low-shrinkage companies, we find an interesting occurrence: 29% of the corporate security heads report to the president, compared to only 11% in high-shrinkage companies. Corporate security heads in high-shrinkage companies are more likely to report to the CFO (29%—high; 13%—low) or the VP/administration (21%—high; 16%—low).

Security heads at the store level report to the store manager in nearly one-third (31%) of cases; the regional district loss-prevention manager (27%) or corporate security head (25%) is also a common reporting relationship. In specialty stores, however, the store-level security head most typically reports to the corporate security head (35%); fewer report to the store manager (14%) or regional/district manager (17%).

Chart G **Reporting Relationships of the Corporate Security Head In High- vs. Low-Shrinkage Companies**



Appendix: Food Retailers

The Participants

Twenty-seven food retailers, operating at more than 2,500 locations, participated in this year's study. Their aggregate 1984 sales volume was in excess of $26 billion. Twenty-two percent of the participating food retailers report 1984 sales volume of $500 million or more. Fifteen percent of the respondents had more than 100 stores, and 4% had more than 500.

Shrinkage Results

Participants report average inventory shrinkage of 0.7% of sales for 1984, a decrease from 0.8% for 1983. This contrasts with nonfood retailers, who report an increase in shrinkage rates from 1983 to 1984. More than three-fourths of the respondents (78%) exclude markdowns when calculating shrinkage.

Shrinkage Attributions

Most companies do not have accurate methods for determining the actual sources of shrinkage. The following information, therefore, is based on their opinions.

Participating food retailers attribute 46% of their inventory shrinkage to employee theft, 27% to shoplifting, 15% to vendor theft, and 12% to errors in paperwork and accounting. Forty-eight percent of employee theft is believed to occur at the point of sale.

Participants indicate several courses of action which they consider most effective in reducing shrinkage. The most common method is to improve loss-prevention orientation programs (78%). Another 70% believe improved personnel screening and increased control at the cash register to be beneficial. These results are not surprising, inasmuch as the companies attribute almost half of their shrinkage to employee theft.

Security Expenditures

Food retailers spent 0.2% of their sales on security and loss-prevention staffing, equipment, and programs in 1984. This represents the same amount, on a percentage basis, that was spent in 1983.

More than half of most companies' security expenditures were for personnel. On average, 27% went to employee guards, 26% to payroll other than guards, and 14% for hired guards. Employees other than guards included the loss-prevention director/manager (82%), loss-prevention office staff (46%), loss-prevention audit and training staff (24%), and regional and store-level loss-prevention managers (23%).

As expected, virtually none of the food retailers allocated a portion of its budget to electronic article surveillance (EAS). Food retailers refrain from using EAS because of management philosophy (42%), cost of implementation (35%), and ineffectiveness as a shrinkage-control measure (35%). However, other electronic equipment such as visible TV cameras (80%), pin-hole video cameras (60%), and point-of-sale systems (33%) are in use. Expenditures for these devices averaged 6% of the food stores' security budgets. An additional 7% was spent for physical facilities, 6% for outside detective/shopping services, and nearly 6% was allocated to training and incentive programs.

Shrinkage Control Practices

Guards/detectives, the most popular measure in controlling shrinkage, were utilized by 75% of the companies. Other widely used devices were mirrors and locks-and-chains; each was cited by close to two-thirds of the companies. Guards/detectives (50%) and training programs (35%) were judged to be most effective by food retailers reporting their use. Although many use mirrors, none considers them to be the most effective selling-floor device for loss prevention. Sixty-seven percent of the users actually believe mirrors to be *least* effective. However, the minimal cost (81%) and the presumed perception by store employees (27%) and customers (23%) that mirrors are effective provide motives to continue their use.

Staffing Practices

Thirty-five percent of the responding food retailers report that they have more than 20 full-time security personnel on staff. Forty-six percent of the companies have fewer than 5 full-time security employees. The number of employees in the security function varies with company size: 69% of those with sales of less than $200 million have fewer than 5 full-time security personnel, while almost half of the companies with sales in excess of $200 million employ more than 20.

Personnel Training Policies

Almost all of the food retailers have security and loss-prevention orientation programs for both security and nonsecurity personnel. Some methods of formal training in security and loss prevention for new security personnel include self-teaching manuals (83%), videotapes (61%), and slides/films (52%). These three methods are also much used for nonsecurity employees. Orientation and follow-up training for security as well as nonsecurity personnel are likely to be internally developed and conducted in both branch and corporate locations.

Sixty-nine percent of food retailers continue to update security employees in loss-prevention techniques, while 62% have follow-up programs for nonsecurity personnel. More companies with sales of $200 million and over (79%) tend to have subsequent training for security employees than those with sales of less than $200 million (58%). The most popular post-orientation methods for security personnel are self-teaching manuals (42%) and videotapes (38%). However, the most popular teaching methods for nonsecurity employees are videotapes (56%) and slides/films (50%).

Survey participants believe that their existing training programs influence shrinkage levels either very effectively (35%) or somewhat effectively (43%). Seventy-five percent of companies with shrinkage under 0.5% of sales consider their training programs to be very effective, while 67% of those with shrinkage over 0.5% of sales think of their programs as being only somewhat effective.

Sixty-three percent of stores with low shrinkage conduct a formal shrinkage-reduction awareness program. Conversely, 67% of those with high shrinkage have none. Such awareness programs are usually carried out through posters (60%), newsletters/magazines (60%), and periodic meetings (60%).

Reward and Recognition Programs

Eighty percent of the participating food retailers provide recognition to employees who apprehend shoplifters and/or dishonest personnel. Forty-seven percent provide recognition to employees who are instrumental in controlling shrinkage. Only 20% pay monetary rewards to employees who help to reduce shrinkage.

Organization Reporting

Forty percent of corporate security heads report to the president. The next most frequently cited executive was the chief operations officer (28%). Other reporting relationships cited include the vice-president for administration (8%) and the controller (8%).

At the store level, 33% of the respondents said that the security manager reports to the corporate security head. In only 8% of the companies did the in-store security manager report to the store manager.

Table 20 **Food Retailers: Percentage of Participants by 1984 Sales Volume and Shrinkage Percentage**

	Shrinkage Percentage	
	Under .5%	.5% and over
Under $100 Million	13%	21%
$100 to $499 Million	75	56
$500 Million to $1 Billion	0	11
$1 Billion and Over	12	12

Table 21 **Food Retailers: Percentage of Participants by Loss-Prevention Expenditures as a Percentage of 1984 Sales Volume and Shrinkage Percentage**

	Shrinkage Percentage	
	Under .5%	.5% and over
Less than .1%	43%	50%
.1% to .24%	29	13
.25% to .49%	14	25
.5% to .99%	14	12
1% or More	0	0

Table 22 **Food Retailers: Security Devices Used on the Selling Floor by Shrinkage Percentage**

	Shrinkage Percentage	
	Under .5%	.5% and over
Mirrors	63%	88%
Limited-Access Areas	75	88
Observation Booths	25	63
Visible TV Cameras	50	75
Concealed TV Cameras	38	50
Point-of-Sale Systems	25	63
Guards	75	75
Lock-and-Chain Devices	50	88
Training Programs	100	50
Fitting-Room Attendants	0	13

On the Audit Trail

Interview with Jon B. Harrison

Director of Security, Smitty's Super Valu, Inc.

An Arizona grocery chain that sells everything from diamonds to pharmaceuticals, Smitty's designs asset-protection programs around the special needs of each department.

Trained in law enforcement at the University of Arizona, Jon B. Harrison served in the Tucson police department until he entered retail security and loss prevention. He has been with Smitty's for nine years.

Editors: Mr. Harrison, would you first tell us something about Smitty's lines of merchandise and size?

JBH: Certainly. We are 75% a grocery operation, 25% a department store selling jewelry and diamonds, men's, women's and children's clothing, and sporting goods (everything from guns to pingpong balls). We have a full-line hardware department and an automotive department where the high end might be a $400 car stereo and the low end is a quart of oil. In photo-sound, we sell VCRs, TVs, radios, cassettes. We also have a pharmacy, a large health and beauty aids department, domestic housewares, and toys. Our concept is one-stop shopping; our stores measure 110,000 square feet. Believe me, we leave almost nothing out. We even have a bank branch in our stores, through an arrangement with Western Savings. As well as a moderately priced restaurant and snack bar.

Smitty's has 22 locations as of mid-November 1985 throughout the greater Phoenix area, by which I mean suburbs like Scottsdale and Tempe as well as the downtown area. In sales, we're exceeding the $600-million mark—excellent results for a relatively small number of stores.

Editors: You must experience every kind of security and loss-prevention problem.

JBH: Yes, that's true. I can really spread my wings, implement programs, and hopefully try to *prevent* problems. My primary emphasis is on prevention—we prefer to keep the honest person honest. The uppermost need, as everywhere else in retailing, is effective prevention programs for employees.

Editors: Let's talk about employee-oriented security and prevention.

JBH: In our 15 largest stores, we have what we call security agents, who are civilians rather than law-enforcement people. They work a 40-hour week in just one store, and the vast majority of their concern is the prevention and detection of internal loss. We try to see that they're occupied for perhaps 30 hours weekly with various carefully designed audits: tracking the movement of merchandise, following up on voids, refund violations, cash-register discrepancies. They interview, they let the employees know they are there, and they review paperwork.

Let's follow the loss-prevention cycle from warehouse through sales and bookkeeping. In photo/sound, for example, when an item is received at the back door, a purchase order usually accompanies it, whether it's a direct-route delivery from a supplier or sent by our warehouse. The merchandise (say, five TV sets) is priced by the receiving department and stored either on the display floor or in the in-store warehouse. The security agent's job begins at that point: he assigns an inventory control number, or IC, to every piece of merchandise selling for $100 or more. He notes that 20 TVs of that particular model are already in-house, IC numbers 1 through 20, and so he assigns numbers 21 through 25 to the newly arrived merchandise. With a marking gun, he puts the store number and the IC number on all four sides of each box so that no matter which way it is turned, he can see them. He notes that the number of TVs received, according to the purchase order, is identical to the number of TVs to which he has assigned an IC number.

Every week, he does a complete inventory of all the photo/sound stock exceeding $100 in retail value, keeping his records in a book that is available to only one other individual, the security clerk. The security clerk (a civilian, although some years ago we used uniformed contract help) is the security agent's partner. The clerk mans the front door from 4 AM till opening at 8 AM, monitoring the entry and exit of employees and doing security-oriented paperwork.

Here is what he is looking at. When a customer buys a TV, the salesperson records the sale in what we call a warranty book. He or she might write, for example: John Doe, Brand X 23-inch TV, IC #21, with the price. On the following day, the

security clerk goes through the warranty book in the morning hours and checks it against the inventory log book maintained by the security agent. The clerk will also check the cash-register detail tape to verify that yesterday a TV was sold for, say, $523, the retail price of that particular type of set.

At the moment, we're still doing these cross-references manually, but we're in the process of installing a new cash-register system that produces reports at the end of the day by subclass—all TVs, for example, will be grouped under one heading, and we'll find it easier to verify that X number of TVs were in fact rung up on the cash registers.

Now, we implemented this very thorough program not for the whole store on a weekly basis but just in certain departments—automotive, jewelry, sporting goods, photo/sound. In those departments, employees and customers were more inclined to remove expensive items unlawfully. And our approach has worked very well.

Editors: What did you use as a model? Did you come up with this yourself, or did you draw from common knowledge in the field?

JBH: We built on a model that I borrowed from a friend in the San Francisco area, who uses security clerks in much the same way. We all learn from each other, but you have to adapt to your own environment. For example, in photo/sound, it is cost-effective to do a piece-by-piece weekly inventory. But in jewelry, you don't have 250 to 300 pieces of merchandise to keep track of, you have literally thousands. We've broken up

"We prefer to keep the honest person honest."

"We don't mind being firefighters; when we detect a problem, we develop an approach that makes sense."

the area into categories—diamonds, bracelets, necklaces, rings. One week, we'll do rings, another we'll do diamonds. And we do spot audits just to keep people on their toes—for example, we'll audit ten diamonds during weeks when we're not performing a full diamond audit.

We use the same combination of full audit/spot audit in guns. A full audit of 300 to 400 weapons takes about four hours—we can't do that weekly. But we'll do at least a spot audit weekly, and a full audit once a month.

The challenge in the jewelry department is that we don't generally have there a $20,000, experienced salesperson whom we know well. We probably have a high-school girl who comes in after school. In a few cases, she may not be quite as responsible as we would like. But on the whole we do better by staffing at lower salary levels and keeping a high loss-prevention presence in the area. It's cost-effective—and puts a greater burden on the security department.

We don't mind being firefighters; when we detect a problem, we develop an audit approach that makes sense. In the pharmacy department, for example, insurance forms created an opportunity for dishonesty that we finally understood and learned to audit. We found a pharmacy manager overcharging insurance companies by adding fictitious prescriptions to legitimate ones and eventually pocketing the difference. We only caught onto him because he tampered with the account of an insurance employee

who received her own paperwork! To prevent this and similar practices, we now pull a few insurance forms monthly and send a letter to the customer: "Two weeks ago, we filled your prescriptions for $5.45 and $12.36, and we would like to know if service was satisfactory" — we maintain discretion by not mentioning the nature of the prescriptions. From a security and prevention point of view, what we're doing is verifying that the sale was properly made for those particular items, neither more nor less.

We do the same, on a spot basis, for refunds: we inquire by letter about service and find out about honesty. What we often learn, by the way, is that service was excellent. We send those responses up through senior management and back around to the salesfloor, so that the salesperson knows that he or she is doing a great job—and also knows that security follows refunds pretty carefully. Letters of praise go into the salesperson's personnel file; letters that raise security and prevention questions are looked into.

Editors: Jon, you're doing many things, and it sounds as if you're free to develop new programs as you see fit. Top management must be behind you.

JBH: Yes, I have plenty of support—as we both know, if you don't have support from the top, forget it. I have support with boundaries.

Editors: We understand that in the summer of 1984 the state of Arizona passed a civil liability law to deter shoplifting. Is it true that the store itself can now exact a penalty payment from a shoplifter, over and above payment for stolen merchandise? Are these payments separate from anything a criminal court might order if the case is brought to trial? Tell us something about the impact of this law on your operations.

JBH: Yes, like Washington, California, and probably a few other states, Arizona has a shoplifting civil liability law that allows us as a store to seek penalty payments from shoplifters. You see, our stores are open 87 hours each week. In each store, we have a security agent and security clerk on duty, and a plainclothes store detective. But the sheer number of hours we're open means that we're bound to have a shoplifting problem. Last year we apprehended 3,990 shoplifters—believe me, the law helps us to deal with this very substantial problem.

The gist of the law is that we're entitled to seek a $100 penalty payment from an apprehended shoplifter, in addition to payment in full for stolen merchandise. The parents of minors who shoplift are held civilly responsible for their children's actions.

When we arrest shoplifters, we give them a copy of the law and inform them that the $100 penalty and payment for merchandise are separate from criminal charges. They have a telephone number where they can reach us if they have questions, and they have 20 days to pay. Over the past year, we've developed a series of letters to communicate with shoplifters who cannot or will not meet the 20-day demand. We offer a minimum installment arrangement—10% of the total charges to be paid each month until the obligation is met. We currently have more than $100,000 receivable under the installment plan. I've hired a staff of two to manage the operation, which obviously more than pays for itself. In the first nine months of operations under this law, we collected in excess of $100,000. I should add that we also go forward with criminal charges in the great majority of prosecutable cases.

People tend to pay the first few installments and then stop. To meet that problem, we periodically generate letters by computer to inform the shoplifter that he must resume payment or face additional civil charges in small claims court. Still, 25% to 30% of people making the installment payments eventually disappear—move out of town or to another address. We can't expect 100% results.

Editors: Given your aggressiveness in pursuing shoplifters, do you sometimes make a false arrest or run the risk of a suit? Have you had trouble along those lines?

JBH: Not much. The lawyers in town know that Smitty's won't hesitate to go to court and defend itself vigorously, and so we have very few spurious claims against us. We make a few mistakes, and we've had to pay for them, but it's rare. We're not proud, just careful. ■

The Arizona Civil Liability Law to Deter Shoplifting *(excerpts)*

Article 10. Shoplifting

12-691. Civil liability for shoplifting; adult; emancipated minor

An adult or emancipated minor who commits shoplifting as defined by section 13-1805 (Criminal shoplifting statute) is civilly liable to the owner of the obtained goods for all of the following:

1. A penalty in the amount of the retail value of the obtained goods.
2. An additional penalty of not less than one hundred dollars nor more than one hundred dollars plus the actual damages to the owner.

12-692. Shoplifting by unemancipated minor; liability of parent or guardian; foster parents

A. The parents or legal guardians having custody or control of an unemancipated minor who commits shoplifting as defined by Section 13-1805 are civilly liable to the owner of the obtained goods for all of the following:

1. A penalty in the amount of the retail value of the obtained goods.
2. An additional penalty of not less than one hundred dollars nor more than one hundred dollars plus the actual damages to the owner.

B. Foster parents are not liable.

12-693. Conviction for shoplifting; admissibility

A conviction for shoplifting under section 13-1805 is not required to maintain an action pursuant to this article. An adjudication of not guilty of violation of section 13-1805 is admissible in an action for civil liability under sections 12-691 and 12-692.

Creating a Climate of Honesty

David J. Cherrington
Professor of Organizational Behavior, Brigham Young University
J. Owen Cherrington
Professor of Accounting, Brigham Young University

Everyone believes in being honest. In surveys of people's values, honesty consistently rates as most important, but as a nation and as individuals our behavior is not always consistent with our values. Fraud, embezzlement, and theft are serious problems and an increasingly heavy burden for organizations. Annual estimates of losses increase at a much greater rate than the increase in either population or gross national product. Conclusion: dishonest business practices are a rapidly growing sector of our economy.

The adverse effects of dishonest employees are most dramatically illustrated in retail companies. Although shoplifting is often blamed for inventory shortages, retail executives consistently estimate that the majority of losses are due to employee theft. Through their dishonest practices, employees threaten the survival of the very companies that provide their jobs.

A climate of honesty in retailing is rarely accidental. It means that management communicates its own high standards—and really cares about employee well-being.

Why People Steal The enormity of the losses attributed to employee theft has caused many to ask, "Why do people steal?" The answer is complex. For some it is an intellectual challenge; for others it is a thoughtless act because the opportunity presents itself; for still others it is a premeditated act driven by greed or financial problems.

In an attempt to understand the major forces associated with fraud, the authors and their associates examined the historical records of over 100 major fraud cases[1] to identify their defining characteristics. From this research, a fraud model was developed that condenses these variables into three major factors: Situational Pressures, Convenient Opportunities, and Personal Integrity.

1. Situational Pressures: Situational pressures refer to the immediate pressures faced by individuals, usually of a financial nature and arising from a variety of personal problems.

2. Convenient Opportunities: Individuals are more likely to commit theft or fraud if they know exactly what to do, conditions are favorable, the act requires little or no effort, and they feel that the chances of being caught or prosecuted are remote.

3. Personal Integrity: Some individuals are more honest than others. Individuals of high personal integrity have clearly defined standards of right and wrong and feel a moral obligation to behave accordingly. Individuals of low personal integrity have not internalized a commitment to behave honestly and feel no guilt when they behave dishonestly.

These three factors, taken together, highlight an important insight: theft and fraud can be perpetrated by otherwise honest individuals if they are placed in a bad environment. Because of intense situational pressures or convenient opportunities, some individuals perform dishonest acts although

they consider themselves honest. Here are the revealing words of a prominent business and civic leader serving a five-year prison term for fraud:

All of the other businessmen in town looked to me for leadership and security, and when our community faced a serious economic crisis, I perpetrated a credit card scam to save my own business and several others. But I don't consider myself a dishonest person; I have as much integrity as the next guy. I only did what I had to do. My back was against the wall and I had no other choice. If you could only appreciate my situation you would understand why I did what I did.

Perceiving themselves as honest, with as much integrity as anyone else, is common among white-collar criminals. We frequently assume that individuals who steal make a conscious decision to behave dishonestly, but most thieves are not in fact choosing deliberately between honesty and dishonesty. Instead, they identify alternative methods of obtaining what they want and choose the easiest. Theft is one of the alternatives.

Dishonest business practices are a rapidly growing sector of our economy.

The Impact of a Climate of Honesty In the summer of 1980, we studied employee theft in 22 department stores operated by three major retail corporations.[2] The purposes of this study were 1) to examine the relationship between employees' honesty attitudes and actual theft, and 2) to identify conditions that contribute to a climate of honesty in retail stores. Employees in these stores were asked to complete a questionnaire that measured their attitudes toward honesty and other background characteristics.

Inventory shortage levels in the three corporations were significantly different, and our study indicated a correlation between the honesty of employees and the climate of honesty in each store. The company with the lowest level of inventory shortage had employees with the highest average honesty scores, while the lowest honesty scores were reported by the employees of the company with the highest shortage. When we examined FBI crime statistics for each of the three locations, we found that the shortage levels were not necessarily related to the amount of external crime within the community. Instead, they correlated closely with variables inside the stores such as the honesty attitudes of employees and other organizational variables (referred to as climate variables).

Defining a Climate of Honesty A climate of honesty refers to the general expectations in the minds of employees about the importance of honest behavior. Although employees do not have identical attitudes, their perceptions about important organizational conditions tend to be remarkably similar. *In most organizations*, there is a set of beliefs which holds that

(a) honesty is important even though

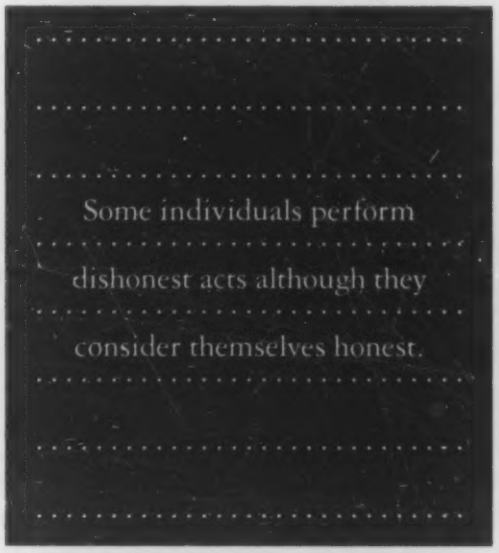
it is not discussed openly or frequently,

(b) dishonest employees will be fired if they are caught, but

(c) they will not be prosecuted unless the thefts are large, and

(d) employees already know what is right and wrong without having to be told.

A few organizations have a much more favorable climate of honesty characterized by high levels of trust, a carefully defined and openly discussed code of ethics, and a general consensus that employees throughout the organization are committed to moral integrity. At the opposite end are companies with a climate of dishonesty, where the employees have a general perception that dishonesty is rampant throughout the organization.



The climate of honesty within a company has a pervasive influence on the behavior and attitudes of its employees. The psychological climate within a company is comparable to a physical climate: just as temperature, pressure, and humidity affect virtually everything, so the climate of honesty within a store affects everyone. Further, the climate of honesty within a store can change slowly over time, just as the physical climate changes from one season to another.

Recruit and Select Honest Employees

The first step in creating a climate of honesty is to staff the organization with employees who possess high levels of personal integrity. The importance of honesty should be emphasized in each step of the selection process. For example, the need for honesty can be emphasized in advertisements about job openings by using such words as "reliable" and "dependable" in describing the type of person sought.

An excellent method of selecting honest employees is a paper and pencil honesty test. Several honesty tests have been developed, and the research examining the reliability and validity of these tests has generally been impressive. The *Applicant Review*, developed by the authors, requires only twenty minutes to administer and can be immediately scored by a software computer program.[3] Perhaps the most important contribution of the *Applicant Review* to a climate of honesty is the concluding statement asking applicants to sign their names as certification of their willingness to behave honestly toward the company, its customers, and co-workers. Although this statement is brief and seemingly insignificant, it has no small impact on applicants. Its importance is underlined when the job interviewer verifies the signature and, looking the applicant directly in the eye, asks, "Are you an honest individual, and can we trust you?" The purpose of this question is not to eliminate dishonest individuals (it is unlikely that an applicant would admit to being untrustworthy). Instead, the benefit is the seed planted in the employee's mind about the importance of honesty in the

organization. He or she knows where the organization stands.

Treat Employees Equitably and Fairly Retail employees almost always feel underpaid. Industry-wide, their average pay is below the average in other industries. However, they should be able to feel that their base pay is fair relative to what others receive for similar work within the company, and is sensibly tied to job responsibilities, performance levels, and seniority. Retail employees also need to feel that they are being treated fairly in non-financial matters.

Retail executives who fail to create conditions of equity and fairness should not be surprised to find that their failure contributes to serious job dissatisfaction. However, they may be surprised to discover that disgruntled employees are much more prone to employee theft. Dissatisfied employees tend to use their dissatisfaction to justify dishonest behavior.

Develop a Code of Ethics In recent years, a growing number of organizations have developed formal codes of ethics. A major banking institution in the southwest United States spent two years developing a carefully written code of ethics. The bank president initiated the process by asking managers to write a brief description of the most troublesome situations they had faced in the areas of honesty and ethics on the job. This request produced several hundred "case studies" to guide the work of the committee drafting the code. Various drafts of the code were circulated, giving every manager the opportunity to respond. *During this period, theft and fraud within the bank decreased significantly.* The bank president conjectured that open discussion among managers during this period had raised their awareness of honesty and business ethics.

When the final draft was completed, each manager was expected to sign a statement saying that he or she had studied it carefully and was willing to abide by it. Sensing that the *process* was more important than the *product*, the bank president anticipates discarding the current code of ethics at the end of two years and starting again.

Involve Employees in Group Discussions Regarding Ethical Conduct The process of developing a code of ethics described above is an excellent illustration of the benefit of group discussions. Research suggests that consensus group discussions have a powerful influence on changing the personal attitudes and values of group members.[4] Such discussions are effective in influencing values because:

(a) they force individuals to think about the issues

(b) they provide individuals with new insight

(c) they reinforce change as individuals see others consider change, and

(d) they allow individuals the freedom to change at their own rate and in their own direction.

On the other hand, research on the effectiveness of honesty training such as lectures, sermons, and other formal presentations has suggested that such training is largely ineffective.[3]

Review Company Policies and Practices to Identify Unethical Procedures Organizational practices such as withholding information, firing "whistle blowers," promoting personal friends, imposing unrealistic growth goals, and using company resources for personal benefit may be technically legal but unethical in fact. Such practices need to be identified and changed or eliminated. Companies should also review their policy regarding the prosecution of employees or customers caught stealing. Although prosecuting minor thefts may be costly, failing to prosecute may be more costly in the long run. The perception that "I will not be prosecuted, even if I am caught" contributes to dishonesty.

Although prosecuting thefts may be costly, failing to prosecute may be more costly in the long run.

Carefully Design a System of Internal Controls A carefully designed system of internal controls helps to prevent dishonesty by making theft less convenient and by discouraging those who are prone to casual theft. A carefully designed system of internal accounting controls may seem to convey the message that employees cannot be trusted, but just the opposite appears to occur. Controls actually generate respect for the organization without igniting resentment.

Develop a Discipline and Grievance System That Provides "Due Process" Every organization needs a well-defined disciplinary procedure for handling problem employees and protecting the organization. On the other hand, organizations should also have a grievance procedure to protect individuals from unfair company practices or capricious supervisory actions.

When employees are not treated fairly in their work environment, it is inconsistent to expect them to develop basic standards of honesty, integrity and fairness.

Reward Employees for Reducing Theft To enlist the cooperation of employees in reducing theft, some companies offer financial incentives. One type is essentially a bounty for employees who report thefts by other employees. When other employees are observant, it is difficult to commit a theft entirely unnoticed. To reduce the stigma associated with the "whistle blower," companies frequently provide an opportunity for such individuals to remain anonymous.

Perhaps the most effective form of financial incentive for improving honesty is a profit-sharing arrangement in which all employees are rewarded for reductions

in inventory shortages. Some organizations have successfully used this approach by identifying a target level of inventory shortages significantly below their current rate, such as 2.5%. When the shrinkage rate falls below 2.5%, 50% of the savings to the store is placed in a profit-sharing fund and distributed to employees.

Evaluate Employee Performance Performance evaluation is a central element in the exchange between employer and employee. When properly performed, it contributes to a climate of honesty. The annual performance-appraisal interview is an appropriate time to reaffirm the importance of honesty.

Perhaps the most effective form of financial incentive for improving honesty is profit-sharing.

Honesty is Acquired Like other social values, honesty is not an inherited characteristic. The alarming rise in theft and fraud provides overwhelming evidence of the need for greater efforts within society, and especially in business organizations, to teach principles of honesty. According to our research, honesty develops in an environment characterized by firm expectations and standards of conduct, reinforcement for correct behavior, disapproval of wrong behavior, the existence of love and concern from important people, and an emphasis on discipline and self-control. This is a climate of honesty, and this is what retailers need.■

Endnotes

[1]W. Steve Albrecht, Marshall B. Romney, David J. Cherrington, I. Reed Payne, and Allan V. Roe, *How to Detect and Prevent Business Fraud* (Englewood Cliffs, NJ: Prentice Hall), 1982, pp. 33-40.

[2]David J. Cherrington, and J. Owen Cherrington, "The Climate of Honesty in Retail Stores," *Journal of Security Administration*, Vol. 5 (No. 2, 1982), pp. 37-52.

[3]Information about this questionnaire and other questionnaires identified below can be obtained from CHC Forecast Inc., University Station, P.O. Box 7209, Provo, Utah 84602. Test/retest reliabilities and information about validity studies will be provided upon request.

[4]Kurt Lewin, "Group Decision and Social Change," in G.E. Swanson, T.M. Newcomb, and E.L. Hartley (Eds.), *Readings in Social Psychology* (New York: Holt), 1952, pp. 459-473.

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